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**REPORT OF THE  
TASK FORCE ON  
EMPLOYMENT  
OPPORTUNITIES**



**GOVERNMENT OF INDIA  
PLANNING  
COMMISSION**



**Montek S. Ahluwalia**  
**Member**  
**Planning Commission**

**Yojana Bhavan**  
**New Delhi-110 001.**  
**Tel. : 91-11-3719218**  
**Fax : 91-11-3719593**

**E-mail: montek@yोजना1.delhi.nic.in**

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Dear Shri Pant,

I have great pleasure in submitting the Report of the Task Force on Employment Opportunities. On behalf of all members of the Task Force, I would like to convey our sincere thanks for the confidence reposed in us for handling a subject of such great national importance. We are also grateful for the grant of extension of time for submission of the report, which enabled the Task Force to use the initial data from the Census and the results of 1999-2000 National Sample Survey on Employment.

I would like to place on record the gratitude and appreciation of the Task Force for the tremendous efforts put in by Shri Shailendra Sharma, Adviser (LEM), Planning Commission as Convenor of the Task Force in presenting and analysing data on employment obtained from different sources. We would also like to acknowledge the support provided to the Task Force on various specialised topics from other officers of the Labour, Employment and Manpower Division in the Planning Commission viz., Shri T.S. Krishnan, Smt. Padmaja Mehta, Shri Nilambuj Sharan, Shri Raj Kumar and Smt. Radha Ashrit.

With warm regards,

Yours sincerely,

(Montek Singh Ahluwalia)

Hon'ble Shri KC Pant  
Deputy Chairman  
Planning Commission  
New Delhi.

### **In Memoriam**

One of the Task Force Members, Professor Pravin Visaria, passed away before the Task Force could submit its Report. Pravin was a source of strength for the Task Force from the very beginning of our work in January 1999. His knowledge and expertise in demography and the analysis of NSS data on employment provided valuable insights which helped the Task Force to formulate its view on 'the nature of employment problem' and recent trends as well as in formulating broad approach on employment strategy for the future.

The Members of the Task Force have unanimously decided, as a mark of respect and acknowledgement, to dedicate this report to the memory of Late Professor Pravin Visaria.

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# CHAPTER 1

## **INTRODUCTION AND OVERVIEW**

The need to ensure adequate growth in employment opportunities to provide productive employment for the continuing increase in the labour force is widely regarded as one of the most important problems facing the country. There is widespread concern that the acceleration in GDP growth in the post reforms period has not been accompanied by a commensurate expansion in employment. Public sector employment is expected to fall as the public sector withdraws from many areas. There are fears that the process of internal liberalization and globalisation, inevitable though they may be, are creating an environment which is not conducive to expanding employment in the organized private sector. Existing industrial units are shedding excess labour in order to remain competitive and new technology, which is essential to ensure competitiveness, is typically more automated and therefore not job creating. The net result of these forces, it is feared, could be a very slow expansion in employment opportunities in the organized sector, with a rise in unemployment rates and growing frustration among the youth. The problem is perceived to be especially severe for educated youth, who have high expectations about the quality of employment opportunities that should come their way.

1.2 Recognising this problem, the Planning Commission established a Task Force on Employment Opportunities under the Chairmanship of Shri Montek S. Ahluwalia, Member, Planning Commission to examine the existing employment and unemployment situation in the country and to suggest strategies for employment generation for achieving the target of providing employment opportunities to 10 crore people over the next ten years, i.e. one crore on average per year. The detailed terms of reference of the Task Force and its composition are given in Appendix I.

1.3 In this chapter we provide an overview of our report and its basic message. The detailed recommendations for policy action proposed in individual chapters are not summarised here but are presented in Chapter 8.

### **1. Some Dimensions of the Problem**

1.4 Our assessment of the employment and unemployment situation in the country along with an assessment of recent trends is presented in Chapter 2. The rate of unemployment, as measured by the NSS surveys appears to have increased in the 1990s with unemployment on the basis of current daily status increasing from 6.03% in 1993-94 to 7.32% in 1999-00. Other measures of unemployment also show an increase.

1.5 The NSS data show that the growth of employment has dropped sharply from about 2.0% per year in the period 1983 to 1993-94 to less than 1% in the period 1993-94 to 1999-00. The deceleration in employment growth has attracted a great deal of attention but it is not adequately recognized that the estimate of employment is derived by applying the unemployment percentage in the NSS Survey to the labour force estimate derived from the Survey. Since the NSS Survey shows a sharp deceleration in the growth of the labour force from 2.3% in the period 1983 to 1993-94 to a little over 1.0% in the period 1993-94 to 1999-00, the employment growth shows a comparable deceleration.

1.6 A basic point which emerges from our review is that the employment objective cannot be defined solely in terms of whether enough job opportunities are created for the projected increase in the labour force. This purely quantitative approach ignores the very important issue of the low “quality” of employment which is the source of much of the current unhappiness with the employment situation. This is evident from the fact that while unemployment according to the CDS measure was only 7 percent in 1999-00, the percentage of the population in poverty was 26%. In other words, large numbers of those currently employed according to the NSS definition earn income levels which are insufficient to take them above the poverty line. In this situation, an employment strategy which focuses on a mere creation of low quality job opportunities will not address the real nature of the problem.

1.7 Employment policy in future must therefore focus not just on creating new employment opportunities in quantitative terms, but also on improving the quality of employment. One aspect of quality is the income generated by the job opportunity but other aspects are also important. For example there is a strong preference for employment opportunities in the organized sector rather than the unorganized sector and especially for employment in the government sector. Our review of recent trends in Chapter 2 show that organised employment grew at only 1.2% per year in the period 1983-1994 which is much slower than the growth rate of total employment in the same period. If the expectations of the labour force regarding creation of employment in the organised sector are to be met, it will be necessary to generate much faster growth in this sector. Similarly, there is a preference for regular wage employment rather than casual wage employment and for self employment which is economically viable, in the sense of providing an adequate and reliable income level, rather than low income self employment of a residual category subject to high variability and uncertainty.

1.8 Some of these expectations definitely cannot be met in future. Expansion in government employment for example is unlikely to be an important source of future employment growth. There is evidence of excessive employment in the government sector as a consequence of fiscal indiscipline in the past when large number of people have been added the rolls, much beyond what is functionally necessary. In any case, fiscal constraints make

impossible to continue in this way. If government employment cannot be expanded the demand for organized sector jobs can only be met by a faster growth in employment in the private organized sector. This may require supportive action in other areas to encourage growth of the organized sector component. One of the steps needed for this purpose is a modification in labour laws.

1.9 The quality of employment is important not only for the new employment opportunities to be created to absorb the new entrants to the labour force, but also for existing employment opportunities, a large part of which are clearly of low quality. A successful employment strategy must bring about a substantial structural change in the pattern of employment over the next ten years, with certain types of traditional low quality, low income, employment opportunities gradually disappearing, and being replaced by higher income, better quality employment. It is therefore important to recognize that a concern with employment should not lead to a desire to protect all forms of existing employment. On the contrary structural change in employment with the disappearance of low quality existing employment should be an important objective of policy.

## **2. Towards a Strategy for Employment Generation**

1.10 The employment strategy needed to achieve our objective of providing sufficient expansion in total employment opportunities to absorb the net addition to the labour force, while also upgrading the quality of existing employment has to extend much beyond any narrow conception of employment policy and employment programmes. To this extent, the employment generation strategy cannot be distinguished from the broader policy thrust for growth and structural change in the economy as a whole.

1.11 We have identified five broad areas of policy which together would constitute an appropriate strategy for employment generation. These are:

- Accelerating the rate of growth of GDP, with a particular emphasis on sectors likely to ensure the spread of income to the low income segments of the labour force.
- Pursuing appropriate sectoral policies in individual sectors which are particularly important for employment generation. These sector level policies must be broadly consistent with the overall objective of accelerating GDP growth.
- Implementing focused special programmes for creating additional employment and enhancing income generation from existing activities aimed at helping vulnerable groups that may not be sufficiently benefited by the more general growth promoting policies.

- Pursuing suitable policies for education and skill development, which would upgrade the quality of the labour force and make it capable of supporting a growth process which generates high quality jobs.
- Ensuring that the policy and legal environment governing the labour market encourages labour absorption, especially in the organized sector.

The main message emerging from our review of each of these areas is summarized below.

### **3. Role of Growth in Employment Generation**

1.12 A central message of our report is that the aggregate employment problem in the country cannot be solved except through a process of accelerated growth which would create additional demand for labour and also provide the increase in labour productivity needed to achieve the much needed improvement in employment quality. The implications of alternative growth rates of GDP for employment generation are explored in Chapter 3. The various projections of employment generated by alternative growth paths are compared with projections of the labour force to come to a broad assessment of the employment situation over the next ten years.

1.13 A sophisticated projection of the labour force over the next ten years requires detailed demographic information from the 2001 census, which will become available only later in the year and this exercise is being attempted as part of the Tenth Plan. For the purpose of our report, we have made a rough projection using available data from the census and the 55<sup>th</sup> Round NSS survey for 1999-00. An important feature of the 55<sup>th</sup> Round results is the deceleration in the labour force growth in the period 1993-94 to 1999-00 to 1.03% per year. This low growth rate has emerged because of a sharp decline in the labour force participation rates in 1999-00 compared with 1993-94. However we find that the decline is primarily a reflection of the fact that the participation rates in the 1993-94 survey were unduly high which has exaggerated the extent of the reduction in labour force participation rates between 1993-94 and 1999-00. We cannot therefore assume that the participation rate will decline at the same rate in the next ten years. This means the growth of the labour force will be lower than the growth of the working age population, which is likely to be around 2% per year, but it will not be much lower. Accordingly we have worked with two alternative assumptions with labour force growing at 1.5% and 1.8% respectively.

1.14 These projected growth rates for the labour force growth imply that the expected scale of addition to the labour force, and therefore the need for new employment opportunities, will be significantly less than assumed in our terms of reference. Even if we adopt the higher growth rate assumption of 1.8%, the addition to the labour force in the next ten years will be 8.3 million per year on average and not 10 million as stated in our terms of reference.

However, although the number of additional job seekers is likely to be less than was earlier assumed, the employment prospects remain a matter of concern.

1.15 Our growth simulations suggest that continuation of 6.5% GDP growth is not likely to bring about a significant improvement in the employment situation. The employment elasticities we have used imply that 6.5% GDP growth will only generate additional employment of 5.9 million per year, leading to a continuing worsening in the rate of unemployment. GDP growth of 6.5% with labour force growth of 1.5 to 1.8% will of course bring about a steady improvement in the productivity per person, which can be expected to generate an improvement in the quality of much of the existing employment, but it may not lead to an improvement in open unemployment.

1.16 Acceleration to 9% growth brings about a significant improvement in the employment situation, with a marked tightening of the labour market. In fact, since the supply of labour in our projections is independent of demand, we find that 9% GDP growth actually generates a labour deficit or “negative unemployment”. Of course, in practice, we do not expect to see labour deficits because the progressive tightening of the labour market will raise real wages and automatically moderate the demand for labour. However, our projections can be interpreted as implying that growth rates of GDP between 8% and 9% are needed over the next ten years if we want to see a significant improvement in the employment situation.

1.17 The relative importance of accelerated growth in generating employment compared to targeted programmes for employment creation can be seen by comparing the additional employment generated by higher growth with the employment created by specific employment oriented programmes. Our simulations show that a shift from 6.5% growth to 8% growth generates an additional employment of 14.5 million in the terminal year 2012. In contrast, the total volume of employment created by all special employment programmes put together is only about 4.4 million and this level has actually declined over time. Because of severe resource constraints, it is unlikely that the volume of employment provided by special employment programme can be increased significantly in future. Indeed substantial additional resources may be needed simply to maintain the present level of employment while improving the quality of employment created. The role of growth in generating additional employment is therefore overwhelming.

#### **4. Macro Level Policies For Rapid Growth**

1.18 If accelerated GDP growth must be the core of any viable strategy for employment creation, the policy framework for achieving rapid growth of GDP must be regarded as essential pre-condition for successful employment generation. We regard the following areas to be critical at the level of macro-economic policy.

*i) Higher Rates of Investment*

1.19 Accelerated growth requires a combination of higher rates of investment and an improvement in efficiency in resource use. As far as investment rates are concerned, we estimate that it will be necessary to increase the gross domestic investment rate by about 4.5 percentage points of GDP to around 29 or 30% to achieve a GDP growth rate of 8%. The resources to finance this expansion in investment have to come dominantly from an improvement in public savings and from an increase in foreign investment. The required improvement in public savings calls for a major improvement in the revenue deficit of both the Centre and the States.

*ii) Improvements in Efficiency*

1.20 Investment alone will not suffice unless accompanied by a substantial improvement in the efficiency of resource use. This calls for policies to promote domestic competition and to continue the process of opening the economy to international competition.

*iii) Improvements in Infrastructure*

1.21 Deficiencies in infrastructure are currently a major constraint on India's ability to achieve 8% growth. This is true for infrastructure in rural areas, especially irrigation and rural roads which are critical for agricultural development, and also social infrastructure especially health and education in rural areas which is very deficient. Infrastructure deficiencies are also a serious problem for the non-agricultural economy. Power, telecommunications, roads, railways and ports are all critical sectors for the competitiveness of the economy, and substantial investments will be needed in these sectors along with an improvement in quality to support 8% growth. This calls for a combination of increased public investment and the evolution of a policy framework in which public private partnership in infrastructure can evolve, with a substantial expansion in the role of the private sector which is essential if total infrastructure needs are to be met.

*iv) The Financial System*

1.22 An efficient banking system and well functioning capital markets are an essential support structure to achieve 8% growth in the economy. Unless the financial system functions efficiently, channeling resources to productive sector in a manner which supports efficient firms and provides sufficient financial resources to permit investment and expansion, it will not be possible for the real economy to respond to the reform signals aimed at accelerating growth. This emphasizes the need for continuing reforms in the banking sector and in the capital markets.

#### v) *Credit for the Informal Sector*

1.23 The formal financial system is not well suited to meeting the credit needs of the informal sector and yet this sector is expected to play a major role in expansion of the economy and the provision of employment over the next ten years. It is therefore essential to ensure that the credit needs of the informal sector are adequately addressed. The co-operative system is a potentially important mechanism for providing credit for the informal sector but the system has been greatly weakened in most states. Non-bank finance companies are another potentially important mechanism for reaching the informal sector with several advantages over the formal banking system. It is necessary to find ways of strengthening NBFCs to enable them to perform this intermediation role with suitable prudential safeguards. Micro-finance through self-help groups is another potentially useful channel.

### **5. Some Critical Sectoral Policies**

1.24 In addition to macro-level policies for accelerating growth, it is necessary to focus on policies in specific sectors which are critical for employment generation and for the quality of employment. In Chapter 4 we present a number of policy suggestions for individual sectors which would help to realize the overall growth objective while also helping to create high quality employment.

#### i) *Agriculture and Allied Activities*

1.25 This sector now accounts for just under 60% of total employment but we do not expect significant growth in total employment opportunities in this sector because it suffers from considerable under-employment at present. However acceleration of agricultural growth is important to increase labour productivity in this sector and thereby increase the quality of employment for large numbers of the existing labour force. This requires action on several fronts.

- It is necessary to increase public investment in agriculture especially in irrigation. This depends critically upon improving the fiscal position of state governments. There is a case for restructuring the existing allocation of resources by reducing implicit subsidies and increasing public investment.
- Controls on agriculture act as an impediment to the development of a national market and should be removed urgently.
- Laws regarding leasing of land need to be liberalized to allow marginal landholders to lease out agricultural land.

Agricultural exports will support diversification of agriculture and also promote employment in rural areas. Our policies towards agricultural export have not been sufficiently supportive.

In particular, control on agricultural exports should be abolished. Other steps also need to be taken to promote agri-exports.

*ii) Food Processing*

1.26 This sector is highly under-developed compared to its potential. Development of food processing could be an important support for agricultural diversification which is necessary, and it would provide significant non-farm employment in rural areas. Government policy towards this sector has not been adequately supportive and needs to be comprehensively reviewed. There is a case for rationalization of multiple laws affecting this sector and in particular, modernization of the Prevention of Food Adulteration Act. The structure of taxation should also be reviewed to remove disincentive for food processing.

*iii) Small Scale Industry*

1.27 The small scale sector is an important source of industrial dynamism and growth of employment. It needs to be encouraged through multiple initiatives. The following are particularly important.

- Some of the larger issues of reforms in infrastructure development (especially power) and reforms in labour laws, are particularly important for the SSI sector, much more so than they are for large industry. Progress in these areas will therefore help SSI development and the growth of employment in this sector.
- The benefits currently given to the SSI sector in industry should be extended to small scale enterprises in the non-industrial sector, including services.
- Government should provide resources for upgrading infrastructure for industry clusters where there is a sufficient agglomeration of SSI units.
- State governments must undertake concerted efforts, in close consultation with SSI organizations, to reduce the burden of “inspector raj” which is especially heavy on SSI units.
- The policy of reservation has become an impediment to the development of a strong SSI sector capable of competing effectively in the new more open trading regime. We recognize this is a sensitive subject but after careful consideration of all factors, we recommend phased abolition of reservation over a period of 4 years. This will give existing units time to adjust and will create a healthier and more vibrant SSI sector.

#### *iv) Services*

1.28 The services sector will be the major source for employment generation in future providing about 70% of the new job opportunities in the economy. Adequate attention has not been given to the many sectoral policy constraints which hold back employment in services. We have made recommendations in the following areas which we believe are critical for achieving our employment objectives in the next ten years.

- Travel and Tourism
- Information Technology
- Housing and real estate development
- Construction
- Road Transport
- Distributive Trade
- Education and Health Services

Our recommendations in these sub-sectors are designed to remove constraints which prevent rapid growth and modernization of these sectors. Some of these recommendations will lead to an expansion in total employment. Others may not contribute to an increase in total employment but will accelerate the shift from unorganized modes of production to organized sector modes, which is extremely important if we want to improve the quality of employment. It is important to emphasise that the structural shift in some areas may appear to displace traditional types of employment, but it needs to be encouraged nevertheless.

### **6. The Role of Special Employment Programmes**

1.29 Special employment programmes aimed at providing wage employment or self employment opportunities have been an important element of our employment strategy over the years. In Chapter 5 we have reviewed the experience with these programmes and made an assessment of their potential role in the future. Our review of past experience suggests at best a mixed picture. Many of the major programmes, especially IRDP, suffered from major weaknesses. There was little evidence of success in generating sustainable self-employment opportunities. The wage employment programmes also suffered from weaknesses in design and implementation. The focus on pure employment creation in these programmes led to the specification of excessively high wage components which had the effect that the assets created under the programmes were insufficiently productive.

1.30 Since financial resources with the central government are scarce, and there are competing demands from the social sector and infrastructure, it is difficult to count on any substantial increase in the volume of resources devoted to these programmes. The shift of

emphasis from pure wage employment generation to creation of durable infrastructure assets will also reduce the amount of direct employment generated for a given volume of resources. It is therefore unlikely that the total volume of employment created by these programmes can expand significantly in future. However, while special employment programmes may not make a significant contribution to the expansion in total employment in future, they will continue to play an important role in providing supplementary employment, especially to groups of the population that are specially vulnerable and in areas subject to sudden economic stress e.g. on account of droughts, floods or other natural calamities.

1.31 There is a case for continued support for programmes like PMRY and the Margin Money Scheme of KVIC which help new entrants into small business and potential village industry entrepreneurs. These programmes are relatively less dependent on budgetary support and rely to a greater extent upon parallel resource flows from the commercial banks. However in implementing these programmes it is important to ensure that the commercial viability of these activities is effectively established.

## **7. Labour Skills and Training**

1.32 While faster GDP growth is necessary to generate a demand for labour, it can only be achieved if the labour force is sufficiently skilled. This is especially so if the growth is to come from expansion of more labour using sectors, which would generate a large demand for skills in all sectors. Unfortunately, the skill endowment of India's labour force leaves a great deal to be desired. Almost 44% of the labour force in 1999-2000 was illiterate and only 33% had schooling of secondary education and above. The latter category includes all those who have some secondary school education even if they did not complete secondary school. The percentage of those who had at least completed secondary school would be significantly lower. The position in relation to vocational skills is even more alarming. Only 5% of labour force in the 20-24 age category have vocational skills compared with 28% in Mexico and as much as 96% for Korea.

1.33 Part of the problem is a strong preference among the young for general education over vocational training because general education has traditionally been seen as a route to acquiring government jobs which are highly valued. This has led to a low demand for vocational training courses. However, there is also a problem with the supply side of vocational training. The physical capacity of the existing training institutes is limited and the quality of the training provided is also not up to the mark. Training courses in government run institutes are often not sufficiently reflective of market demand. There is also a perception among employers that the skill levels acquired by graduates of these institutes are inadequate.

1.34 Correction of these deficiencies calls for action on several fronts. Given the continuing low levels of enrollment and high drop out rates in middle and secondary school,

there can be no doubt that a major expansion in general education is necessary. However, efforts should be made to increase the vocational content of education. More generally, the education system must evolve in a manner which lays greater emphasis on acquiring marketable skills. The ITIs in the public sector need to be strengthened by providing additional resources for upgrading their facilities. They also need to be restructured to provide much greater interaction with industry and joint management.

1.35 At the upper end of the educational spectrum, the capacity for producing trained engineers needs to be expanded. Given the heavy demand for graduates of IITs abroad and the likelihood that many future graduates will continue to migrate, we need to expand the capacity of the existing institutes to ensure that our demand for high skills is met. There is a case for substantially expanding the capacity of existing IITs and also the total number of IITs by creating an IIT in each major state.

1.36 The role of the private sector in providing education and training needs to be encouraged as much as possible. Private training institutes have done well in many sectors though there are problems of assuring quality. Existing policies regarding private sector investment in education and training need to be reviewed to remove impediments which hamper the flow of private resources into this sector. The role of the government must change from being a direct provider of services to being a facilitator and source of certification.

## **8. Regional Dimensions of Employment**

1.37 An aspect of employment growth which we have not explicitly addressed in the Report is the regional variation in the employment situation in future. The experience of the 1990s shows that growth rates of State Domestic Product vary considerably across states with the fastest growing state, Gujarat, recording a growth rate of about 8%, while the slow growing states grew at only 3%. Given the importance of GDP growth as a determinant of employment growth in our simulation of employment in Chapter 3, one can assume that continued disparity in regional growth rates will imply corresponding divergence in the rate of improvement of the employment situation. This will be moderated to some extent by migration from the slow growing states to the faster growing states, a trend that is already evident, but large scale migration is not the answer to inadequate availability of employment opportunities, especially for lower skill levels. A regionally balanced employment strategy therefore calls for much faster growth rates of SDP in the poorer states. This in turn points to the importance of policies which can accelerate SDP growth in the poorer states, including, especially in the agricultural sector, as the critical factors for improving the employment situation in these states.

1.38 Many of our recommendations on policy reform at sector level require initiatives by the State Governments, and to the extent it is not uniformly pursued by all States, the impact of our recommendations will differ across States. At the same time, some of the sector level

reforms we have recommended will give much better returns in terms of generating employment and improving the qualities of employment in States that have done less thus far.

## **9. Reform of Labour Laws**

1.39 To achieve a significant increase in the proportion of organised sector employment to the total, we will need to address problems with our labour laws which are widely regarded as being too rigid and therefore have the effect of discouraging growth of employment in the organised sector. This issue is examined in Chapter 7. Our assessment is that the existing labour laws, and in particular the way they have been administered and implemented, have this unintended effect of discouraging employers from investing and expanding in labour intensive areas. This has made us uncompetitive in these areas in export markets denying us the possibility of large expansion in organised sector employment. It has also made our producers uncompetitive vis-a-vis imports in an environment where the economy is increasingly becoming more open, a trend which is unavoidable and should be continued.

1.40 A comprehensive review of the labour laws will no doubt be undertaken by the Second Labour Commission. However there are some changes that are urgent. It is particularly necessary to introduce flexibility by deleting the provision requiring prior permission of the government for retrenchment and closure. This provision was introduced in 1976 and it has introduced a degree of inflexibility that does not exist in any other country. In a globalised world if we subject our producers to a labour regime which reduces their ability to adjust in the face of changing economic circumstances, the result is not to protect employment but to make production uncompetitive both in export markets and in domestic markets. We have also made a number of other suggestions for amendment of the Trade Unions Act (1926) and the Contract Labour (Regulation and Abolition) Act (1970), which in our view are desirable to make Indian industry competitive.

1.41 Reform of labour laws is a particularly sensitive issue and there is understandable reluctance to proceed with reforms which may appear “anti-labour”. For this reason it is necessary to bring about a better appreciation of the negative effects of existing labour laws on total employment in the economy and the potential benefits to labour of introducing greater flexibility. It is also important to implement labour law reform as part of a package which could be seen as putting suitable pressure on inefficient managements. Reform of bankruptcy laws is particularly important in this context. It is also necessary to make a start towards implementing some form of unemployment insurance as a safety net to mitigate the hardship associated with retrenchment. Such a system would have to be based on contributions from labour and employers and should not involve an open ended burden on the state.

1.42 In the chapters that follow, we spell out in detail the policy implications of the broad approach overviewed in this chapter. We wish to reiterate that one most important message is that the employment strategy for the next ten years cannot be dissociated from the process of accelerating economic growth and bringing about structural change in the economy. This acceleration in growth has to be achieved in an environment in which competition, including international competition is inescapable. Our policies must therefore be tailored to ensure that the economy can achieve more rapid growth of output and employment in an enviro in which the process of integrating with the global economy is unavoidable. At a macro level, we need to push the policies which can help to achieve a more rapid rate of growth with an emphasis on the growth of labour using sectors, including especially agriculture and agro-based industries. This will create an environment conducive to growth of total employment and an improvement in the quality of employment. This macro level strategy needs to be supported by policies at the sectoral level which attempt to remove the sector specific constraints which hold back growth.

1.43 Many of the policies that emerge from the strategy proposed in this report may not seem to be directly relevant for employment generation, but they are in fact crucial if we want to achieve rapid growth in total employment with an improvement in the quality of employment of which is equally important. A viable employment strategy for the future must go beyond the limited concern with employment programmes which has dominated the policy debate in the past. It is only a rapidly growing economy, with a structural change in which labour intensive sectors see major modernisation and technological upgradation, that can provide the expansion in productive and high quality employment opportunities that we will need in the next ten years.

## CHAPTER 2

### **THE EMPLOYMENT UNEMPLOYMENT SITUATION : AN ASSESSMENT**

Our terms of reference specifically require us to “examine the existing employment and unemployment situation in the country” and this chapter responds to this requirement. It presents unemployment situation and recent trends based on available data. We also draw some implications for policy which have to be kept in mind in evolving an employment strategy for the next ten years.

#### **1. Measurement and Recent Trends**

2.2 The terms employment and unemployment are frequently used in public debate and discussion but they are not easy to define and measure in our situation where there are considerable seasonal variations in the intensity of employment and the presence of underemployment in many forms is widely prevalent. For example, the census, which classifies people as employed or unemployed based on a single question, with no reference to the period involved over which employment is measured or the intensity of employment in the period, cannot capture these complexities. Recognising these problems, the National Sample Survey Organisation (NSSO) collects detailed information on the employment status of the population through large-scale, nation-wide sample surveys in which individuals are categorised as employed or available for work but not employed, using different criteria. These surveys are the most reliable source of data on the employment-unemployment situation in the country and they are the basis of our assessment of employment and unemployment.<sup>1</sup>

#### *i) Measurement of Unemployment : Alternative Measures*

2.3 The NSSO provides four different measures of employment and unemployment which capture different facets of the employment-unemployment situation following the recommendations of the Expert (Dantwala) Committee on Unemployment.

- **Usual Principal Status (UPS)**: A person is counted as being in the labour force on principal usual activity basis if s/he was either engaged in economic activity (work) or reported seeking/being available for work for the major part of the preceding 365 days. Those classified as being in the labour force on this basis are

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<sup>1</sup> We have used the employment-unemployment data drawn from the quinquennial, large sample, Employment-Unemployment Surveys of the NSSO conducted in 1977-78, 1983, 1987-88, 1993-94 and 1999-2000. Employment and unemployment rates (as percentage of the total labour force) drawn from these Surveys are combined with independent population data to obtain estimates of the absolute number of people employed or unemployed.

further classified as being employed or unemployed depending on whether the majority of the days in labour force was spent in economic activity or in seeking/being available for work. The Usual Principal Status unemployment rate is the proportion of those classified as unemployed on this basis expressed as a percentage of those classified as being in the labour force. On this criterion, persons can be counted as being employed even if they were unemployed (or were outside the labour force) for a significant part of the year. Equally, a person can be counted as unemployed even though s/he may have been employed for part of the year.

- Usual Principal and Subsidiary Status (UPSS): This provides a more inclusive measure covering, in addition, the participation in economic activity on a more or less regular basis of those classified as unemployed on the Usual Principal Status as also of those classified as being outside the labour force on the same criterion. This would result in a larger proportion of the population as being in the labour force with a higher proportion of workers and lower unemployment rates relative to the UPS criterion.
- Current Weekly Status (CWS): The reference period here is the week i.e. the 7 days preceding the interview. A person is counted as employed if s/he was engaged in economic activity for at least one hour on any day during the reference week. A person not being engaged in economic activity even for one hour on any day but reporting seeking/being available for work during the reference week is classified as unemployed. To the extent that employment varies seasonally over the year, the labour force participation rates on the Current Weekly Status would tend to be lower. However, reflecting the unemployment during the current week of those classified as being employed on the UPS (and the UPSS) criterion, the Current Weekly Status unemployment rates would tend to be higher. The difference between the unemployment rates on the Current Weekly and that on the Usual Status would provide one measure of seasonal unemployment.
- Current Daily Status (CDS): Based on the reported time-disposition of the person on each day of the reference week (in units of half day where needed by the presence of multiple activities within a day), person-days in employment (unemployment) are aggregated to generate estimates of person-days in employment/unemployment. The person-day unemployment rate is derived as the ratio of person-days in unemployment to the person-days in the labour force (i.e. person-days in employment plus person-days in unemployment). This measure captures the 'within-week' unemployment of those classified as employed on the

Weekly Status. The CDS-measure of unemployment is widely agreed to be the one that most fully captures open unemployment in the country.

2.4 The four different unemployment rates emerging from successive NSSO surveys corresponding to each of the four measures described above are summarized in Table 2.1. The extent of unemployment varies considerably depending on the measure chosen. For example, the unemployment rate for the year 1999-2000 is a low 2.23% based on the UPSS definition (which relates to percentage of individuals in the labour force classified as unemployed) but it rises to 7.32% based on the CDS definition (which refers to percentage of unemployment in terms of person days).

2.5 In evaluating the state of unemployment it is important to recognise that some degree of unemployment is normal in any labour market since even in a full employment situation there will always be some people looking for work. Full employment is therefore conventionally defined not as zero unemployment but as that level of employment where unemployment has fallen to the irreducible minimum. However this level has not been defined in the Indian context.

2.6 In order to assess the degree of unemployment in India it is relevant to compare the incidence of unemployment with unemployment in other countries. Differences in definitions make such comparisons tentative at best but subject to this caveat a comparison is presented in Table 2.2 based on the available data on unemployment rates in other countries in the World Employment Report. Since the data for other countries is based on the current weekly status, the CWS measure has been used for India. India's CWS unemployment rate is higher than the rate reported in Bangladesh and China, but it is comparable to Indonesia and significantly lower than in several other countries.

#### *ii) Trends in Employment and Unemployment*

2.7 A better assessment of the employment-unemployment situation can be made by looking at recent trends. Table 2.1 reveals a disturbing feature of an apparent rise in unemployment rates in 1999-2000 compared with 1993-94.<sup>2</sup> The UPSS measure shows a modest increase in the rate of unemployment in the 1990s from 1.9% to 2.23%, but the CDS measure shows a sharper increase from 6.03% to 7.32%. More importantly all four measures show an increase in unemployment rate reversing the decline witnessed in the previous period..

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<sup>2/</sup> It is important to note that before 1987-88 the direction of change in the rate of unemployment over time depends upon the measure used. For example, between 1983 and 1987-88 the unemployment rate increased according to the UPS, UPSS and CWS measures, but fell significantly according to the CDS measure. After 1987-88 however, the direction of change has been the same whichever measure is chosen. The rate of unemployment declined between 1987-88 and 1993-94 using all four measures and increased again between 1993-94 and 1999-00.

**Table 2.1****Unemployment Rates : Alternative Measures**

(Percentage of Labour Force)

	Usual Principal Status (UPS)	Usual Principal and Subsidiary Status (UPSS)	Current Weekly Status (CWS)	Current Daily Status (CDS)
<b>RURAL</b>				
1977-78	3.26	1.54	3.74	7.70
1983	1.91	1.13	3.88	7.94
1987-88	3.07	1.98	4.19	5.25
1993-94	1.80	1.20	3.00	5.63
1999-00	1.96	1.43	3.91	7.21
<b>URBAN</b>				
1977-78	8.77	7.01	7.86	10.34
1983	6.04	5.02	6.81	9.52
1987-88	6.56	5.32	7.12	9.36
1993-94	5.21	4.52	5.83	7.43
1999-00	5.23	4.63	5.89	7.65
<b>ALL INDIA</b>				
1977-78	4.23	2.47	4.48	8.18
1983	2.77	1.90	4.51	8.28
1987-88	3.77	2.62	4.80	6.09
1993-94	2.56	1.90	3.63	6.03
1999-00	2.81	2.23	4.41	7.32

Note : These Estimates of Employment are based on NSS data combined with census data. The NSS gives Labour Force Participation Rate (LFPR) and Work Force Participation Rate (WFPR) for four categories : rural male (RM), rural female (RF), urban male (UM) and urban female (UF) separately. We obtain estimates of the total labour force and total work force in each year by applying LFPR and WFPR to the total population of each category (RM, RF, UM and UF) obtained from the interpolation for inter-census years. However, for the year 2001, the four component (RM, FR, UM & UF) are not available in the key results of Census released in April 2001. Hence, estimates of populations for these four categories made by the Technical Group (which was chaired by Registrar General) in 1996 have been used to combine the component-wise LFPR's and WFPR's to the level of Rural, Urban and All India.

**Table 2.2**

**Unemployment Rates<sup>@</sup> : India and Selected Countries**

Country	1996
<b>India\$</b>	<b>4.4</b>
Australia	8.6
Bangladesh	2.5
China	3.0
Indonesia	4.0
Korea, Republic of	2.0
Malaysia	2.6
Pakistan *	5.4
Philippines	7.4
Sri Lanka	11.3

@ Current Weekly Status Basis

\* Figures relate to 1995

\$ Pertains to the year 1999-2000 (55<sup>th</sup> Round)

Source : World Employment Report

2.8 The growth rates of employment and the labour force derived from the NSS data are shown in Table 2.3. The rate of growth of employment declined sharply from 2.04% per year in the period 1983 to 1993-94 to only 0.98 per cent per year in the period 1993-94 to 1999-2000. This sharp deceleration in the growth of employment has naturally been the focus of much attention and comment, raising fears that economic growth in the 1990s has been of a “jobless” variety. However it is important to recognise that the absolute level of employment in 1999-2000 is estimated by applying the percentage of employed workers to the total number of workers in the labour force observed in the survey to an estimate of the labour force in that year. The estimate of labour force in turn is obtained by applying the Labour Force Participation Rates (LFPR) in the survey to the total population derived from Census data. An important feature of the 1999-2000 survey is that labour force participation rates have declined sharply compared with position in 1993-94 and this is reflected in sharp deceleration in the growth of labour force from 2.29% in the period 1987-88 to 1993-94 to only 1.03 % in the period 1993-94 to 1999-2000. The observed deceleration in employment therefore can not be dissociated from the sharp decline in the growth of the labour force and indeed is derived from it.

**Table 2.3**

**Rate of Growth of Population, Labour Force and Employment**

Period	Rate of Growth of Population (% per annum)	Rate of Growth of Labour Force (UPSS) (% per annum)	Rate of Growth of Employment (UPSS) (% per annum)
1972-73 to 1977-78	2.27	2.94	2.73
1977-78 to 1983	2.19	2.04	2.17
1983 to 1987-88	2.14	1.74	1.54
1987-88 to 1993-94	2.10	2.29	2.43
(1983 to 1993-94)	(2.12)	(2.05)	(2.04)
1993-94 to 1999-2000	1.93	1.03	0.98

2.9 This is not to deny that the employment growth has been inadequate. The data clearly show that the growth rate of employment is less than the growth rate of the labour force indicating an increase in the unemployment rate and this is a matter of concern. However, the sharp deceleration in the growth rate of employment should not be compared as is sometimes done, with the continuing growth rate of population. It must be viewed in the context of the growth rate of the labour force which is shown to have decelerated in the Survey.

2.10 It is relevant to ask whether the observed deceleration in the labour force growth in some sense reflects a structural change in economy which is likely to continue in future. Some deceleration in labour force growth was expected because of the decline in population growth from 2.10% per year in 1987-88 to 1993-94 to 1.93% in the period 1993-94 to 1999-2000 and this would normally be associated with a slower growth in the working age population, which in turn would also lead to slower growth in labour force. However, the observed deceleration in labour force growth from 2.29% to 1.03% is much sharper than the deceleration in population growth. This is because participation rates in all age groups have declined sharply. This decline needs to be carefully evaluated.

2.11 Table 2.4 summarises the participation rates thrown up by various NSS surveys from 1983 to 1999-00. The following features are worth noting.

- a. The decline in the Labour Force Participation Rate (LFPR) in the younger age group in the period 1993-94 to 1999-00 is a part of longer term trend reflecting the expected shift in the activity status of this group towards education. This trend is likely to continue in future.

- b. In prime age groups , especially among males in both rural and urban areas, the declines in LFPR are within the margins of sampling error
- c. In the age group 60 and above the decline in the LFPR can be explained by increase in the share of more aged in the age 60 and above population, where the LFPRs are expected to be low
- d. Finally, the decline in LFPRs in certain age groups between 1993-94 and 1999-2000 appears to be large primarily because the LFPR in 1993-94 showed a significant increase, contrary to the longer term trend. This is most evident in age groups 50-54 and 55-59 and 60 & above of the rural male. This raises the question whether the 1993-94 data were out of line with past trends . This would exaggerate the growth of labour force in the period 1983 to 1993-94 and also exaggerates the apparent deceleration in 1999-2000

2.12 The slower growth of labour force has implications for the number of new employment opportunities that need to be created. The Working Group for the Ninth Plan had projected labour force growth at 2.5% in the period 1997-2002. The actual labour force growth implied by the NSS 55<sup>th</sup> Round in the period 1993-94 to 1999-2000 is much lower at 1.03 percent per year. This implies a considerable scaling down of the number of new jobs to be created. With a base year labour force of 406 million in 1999-2000, a 2.5% growth in the labour force means an annual addition of about 10 million to the labour force for which new jobs would have to be found. This is the figure referred to in our terms of reference. With the observed growth rate of 1.03 % the annual increase in job seekers would be only about 4 million. We return to this issue in Chapter 3 when we make projections about the future.

2.13 In addition to trends in total employment it is useful to consider the pattern of employment growth in different sectors from 1983 to 1999-2000. These trends are presented in Table 2.5 which shows that the deceleration in the total employment growth in the period 1993-94 to 1999-2000 compared with the previous period 1983 to 1993-94 was almost entirely due to slower growth in agricultural employment. In fact the absolute number of persons employed in agriculture shows a decline for the first time. As a result , the proportion of workers employed in agriculture, which declined from 68.5 % in 1983 to 64.8 % ten years later, declined more sharply to 59.8 % in the next six years. Employment in sectors like Trade, Construction, Financial Services and Transport, Storage & Communication has grown faster than the average and the share of these sectors in total employment therefore increased. The share of manufacturing in total employment has also increased but only marginally.

**Table 2.4****Labour Force Participation Rates by Sex and Age, 1983 to 1999-00**

Age Group	Rural Male				Rural Female			
	1983	1987-88	1993-94	1999-00	1983	1987-88	1993-94	1999-00
5-9	25	23	11	7	23	24	14	7
10-14	239	193	139	93	225	183	142	96
15-19	658	630	598	532	442	415	371	314
20-24	915	918	902	889	494	484	470	425
25-29	976	981	980	975	543	539	528	498
30-34	986	990	988	987	577	588	587	557
35-39	988	991	992	986	607	608	610	579
40-44	981	984	989	984	611	620	607	586
45-49	978	982	984	980	589	590	594	566
50-54	957	962	970	953	526	530	543	515
55-59	920	929	941	930	476	463	468	450
60+	660	670	699	640	227	220	241	218
<b>All Ages</b>	<b>548</b>	<b>549</b>	<b>561</b>	<b>540</b>	<b>332</b>	<b>331</b>	<b>331</b>	<b>302</b>
	Urban Male				Urban Female			
	1983	1987-88	1993-94	1999-00	1983	1987-88	1993-94	1999-00
5-9	7	5	4	3	7	3	4	2
10-14	114	92	71	52	65	66	47	37
15-19	472	429	404	366	164	169	142	121
20-24	816	792	772	755	218	225	230	191
25-29	965	967	958	951	242	244	248	214
30-34	985	985	983	980	267	282	283	245
35-39	987	989	990	986	292	313	304	289
40-44	982	986	984	980	305	311	320	285
45-49	977	977	976	974	284	307	317	269
50-54	943	944	945	939	270	269	287	264
55-59	843	849	856	811	230	235	225	208
60+	509	482	443	402	124	123	114	94
<b>All Ages</b>	<b>536</b>	<b>534</b>	<b>542</b>	<b>542</b>	<b>155</b>	<b>162</b>	<b>164</b>	<b>147</b>

Note: Classification is based on those classified in the labour force on Usual Status Basis

Source: National Sample Survey 38<sup>th</sup>, 43<sup>rd</sup>, 50<sup>th</sup> & 55<sup>th</sup> Rounds

**Table 2.5**  
**Growth of Employment by Sectors (UPSS)**

Industry	Employed workers <sup>2/</sup>			Annual Growth Rate	
	1983	(million)		(percentage)	
		1993-94	1999-00	1983-94	1994-00
Agriculture	207.23	242.46	237.56	1.51	-0.34
Mining & Quarrying	1.76	2.70	2.27	4.16	-2.85
Manufacturing	34.03	42.50	48.01	2.14	2.05
Electricity, Gas & WS	0.85	1.35	1.28	4.50	-0.88
Construction	6.78	11.68	17.62	5.32	7.09
Trade	19.22	27.78	37.32	3.57	5.04
Transport, Storage & Commn.	7.39	10.33	14.69	3.24	6.04
Financial Services	1.70	3.52	5.05	7.18	6.20
Community Social & Pers.Services	23.80	32.13	33.20	2.90	0.55
<b>Total Employment</b>	<b>302.76</b>	<b>374.45</b>	<b>397.00</b>	<b>2.04</b>	<b>0.98</b>

1. Notes to Table 2.1 refers.

<sup>2/</sup> The NSS gives the percentage distribution across industries of each of the four categories of workers. We apply this distribution to the absolute numbers of workers of each category for each year and add up the four categories in each industry to derive estimates of total workers in each industry.

### *iii) The Quality of Employment*

2.14 An important aspect of the employment problem, which is missed if we focus only on employment and unemployment, relates to what may be called the quality of employment. Many people are “employed” in the technical sense that they are engaged during the reference period in an income earning activity, but the employment they have may not meet their expectations and this naturally creates dissatisfaction about their employment status. In our view, a great deal of the unhappiness on the employment front arises not from open unemployment but from the fact that much of the employment available does not come up to expectations which are rising rapidly.

2.15 There are several dimensions in which the employment opportunities available may fall short of expectations. The most obvious relates to the level of income which they provide. A large part of the employment generated in the economy at present provides very low levels of income either because productivity in self-employment is very low or because real wages in the relevant labour market are too low. This is evident from the fact that whereas unemployment in 1999-2000 on the basis of UPSS measure, which is a body-count measure, was only 2.23% and even according to the CDS measure it was only 7.3%, the percentage of the population in poverty in the same survey was as high as 26.1%. The fact of being employed is obviously no guarantee of escaping poverty, which in our situation refers to a very basic level of subsistence.

2.16 Income is not however the only aspect of employment that is relevant for quality. Several other features are also relevant and a mismatch between expectations and availability of jobs in any of these dimensions is part of the perceived employment problem.

- People may have a preference for desk jobs rather than jobs which involve manual work. This is particularly true of educated job seekers since our educational system reinforces the prejudice in favour of desk jobs or “white collar” jobs. Educated entrants into the labour force are typically unwilling to take on technical work i.e. “blue collar” jobs or self-employment as carpenters, electricians, plumbers, repairmen etc.
- There is a strong preference for secure wage employment in the organized sector (especially in government) over other forms of employment which are less secure including wage employment in the unorganized sector or self-employment. Some of these alternatives, especially self-employment, may yield a satisfactory income but since these employment opportunities are perceived as involving some measure of risk, they are sometimes valued much less. The preference for security is itself a consequence of the lack of any insurance mechanism that would protect workers at least for a period from the loss of employment. As the economy

undergoes a structural change because of competition and globalisation, the process is likely to increase the degree of perceived insecurity, at least in short run, and this is an important aspect of quality of employment.

- There is also a preference for employment in urban areas rather than rural areas because urban areas provide in many ways greater access to other facilities, which are usually heavily subsidized. However, it may not be possible or even desirable to encourage growth of employment in urban areas. Excessive migration is already placing unsustainable stress on urban areas. It may be more appropriate to focus on improving employment opportunities in rural areas so as to discourage urban migration. One consequence of this is that it may be necessary to tolerate a higher rate of unemployment in urban areas compared with rural areas since efforts to create urban jobs will only increase migration.

2.17 These considerations suggest that a meaningful solution to the perceived employment problem calls for more than the mere creation of a sufficient number of new employment opportunities. It is necessary to create employment opportunities of the right quality that can match the rising expectations of the labour force, especially of the new entrants who are generally better educated and therefore have high expectations. Some of these expectations e.g. of obtaining secure white collar jobs in government may not be feasible in view of the limited scope for expanding government employment in future. This only underscores the need to encourage sufficient growth in other high quality opportunities either in the self-employment category or in regular employment in the organized private sector.

2.18 It must be emphasised that the need for high quality job creation is not limited solely to the needs of the new entrants to the labour force. In fact a high proportion of persons who are currently employed are engaged in employment opportunities of low quality which are not only below their expectations but do not even allow them to cross the poverty line. It is therefore necessary to ensure that many of the existing work opportunities either experience very large increase in productivity, or are effectively phased out and replaced by new work opportunities which generate higher levels of incomes. Since many existing low quality employment opportunities do not have prospects for significant productivity increase, large reductions in the incidence of poverty in a relatively short period can only take place if these low productivity activities are phased out and replaced by new types of activity. A viable employment strategy must allow for the phasing out of low quality employment and its replacement by employment opportunities of higher quality.

## **2. Unemployment Among Particular Categories**

2.19 The unemployment rate for the population as a whole masks important variations in the rate of unemployment for different categories of the labour force. These variations are relevant for policy since they indicate areas where the employment problem is most acute.

### *i) Urban and Rural Differences*

2.20 Unemployment rates are traditionally higher in urban areas than in rural areas, partly because the greater dominance of the organized sector in urban areas forces people to be either employed or unemployed, with fewer opportunities to engage in low productivity subsidiary employment which can disguise an effective state of unemployment. This pattern is evident from Table 2.6 upto 1993-94. It is interesting to note however that the difference in unemployment rates between rural and urban areas narrowed considerably in 1999-2000, because of a sharp increase in rural unemployment rates for both rural males and rural females.

2.21 The reasons for the observed increase in unemployment rates in rural areas are not yet fully understood. One factor could be the shift from self employment to casual labour shown in Table 2.15 . Since the extent of underemployment is effectively disguised in self employment, the shift in composition of employment away from self employment towards casual labour may lead to an increase in measured unemployment especially on the basis of the current daily status measure used in Table 2.6

**Table 2.6**

### **Unemployment\* among Males and Females**

(per cent of labour force)

Survey Period	Rural Areas			Urban Areas		
	Male	Female	Persons	Male	Female	Persons
1977-78	7.1	9.2	7.7	9.4	14.5	10.3
1983	7.5	9.0	7.9	9.2	11.0	9.5
1987-88	4.6	6.7	5.3	8.8	12.0	9.4
1993-94	5.6	5.6	5.6	6.7	10.5	7.4
1999-2000	7.2	7.3	7.2	7.2	9.8	7.7

\* Unemployment rate on current daily status basis

Source : NSSO Surveys

### *ii) Male-Female Differences*

2.22 There are important differences between Male and Female unemployment rates which can be seen from Table 2.6. Female unemployment rates are significantly higher than male unemployment rates though the difference has narrowed down over time and was almost completely eliminated in rural areas in 1999-2000.

2.23 Female unemployment in urban areas was 9.8% compared with 7.2% for male unemployment. As the number of women entering the labour force is likely to increase, especially in urban areas, this suggests that employment policy in future will have to pay special attention to the need to create employment opportunities for women in urban areas.

### *ii) Age Differences*

2.24 Unemployment rates are significantly higher in the younger age groups. Table 2.7 shows unemployment on the Current Daily Status (CDS) definition for different age groups. The unemployment rate for the 15-29 age group was as high as 12.1% in 1999-2000 against 7.3% for the population as a whole.

2.25 Higher unemployment rates in the younger age group reflect the phenomenon that new entrants into the labour force, except those from the lowest income groups, may be more likely to wait until they find a job which matches their aspirations. The extent of mismatch between jobs available and the expectations of the labour force are therefore best captured by the extent of unemployment rate in this age group.

### *iii) Educational Differences*

2.26 A very important feature of the unemployment problem is that the rate of unemployment is typically much higher among the educated than among those with lower levels of education. Table 2.8 presents unemployment rates on the UPSS definition for the labour force classified according to education level. The unemployment rates for the illiterate is as low as 0.2% rising to 1.2% for literates upto primary school and 3.3% for middle school. For the category of educated labour (i.e. education level of secondary education and above) the rate was 7.1%, which is more than 3 times the unemployment rate on the UPSS basis for the population as a whole. This difference clearly indicates the large mismatch between expectations and available employment opportunities for the more educated and highlights the need for employment strategies to focus on employment quality.

**Table 2.7****Unemployment\* across Age Groups : 1999-2000**

(per cent of labour force)

Age (years)	Unemployment Rate		
	Rural	Urban	Combined
15-19	13.3 ( 8.8)	19.0 (16.6)	14.4 (10.3)
20-24	11.8 (9.8)	18.7 (19.2)	13.5 (12.0)
25-29	8.7 (7.4)	10.9 (10.4)	9.2 (8.1)
Sub Group (15-29)	11.0 (8.6)	15.5 (15.0)	12.1 (10.1)
30-34	6.1	4.9	5.8
35-39	5.0	3.7	4.6
40-44	4.8	2.7	4.2
45-49	4.6	2.4	3.9
50-54	4.5	2.1	3.9
55-59	4.6	2.0	4.0
60 and above	3.5	3.8	3.5
<b>All Age Groups</b>	<b>7.2 (5.6)</b>	<b>7.7 (7.4)</b>	<b>7.3 (6.0)</b>

Unemployment rates on current daily status basis

Figures in parenthesis give the comparative estimates for 1993-94

Source : NSSO 50<sup>th</sup> (1993-94) and 55<sup>th</sup> (1999-2000) Round Surveys

**Table 2.8****Unemployment\* by level of education**

(per cent of labour force)

Education Level	Unemployment Rate		
	1987-88	1993-94	1999-00
Not Literate	1.1	0.2	0.2
Literate upto primary	1.9	0.9	1.2
Middle	5.3	3.4	3.3
Secondary	8.7	6.2	5.5
Higher Secondary	-	8.7	7.8
Secondary + Higher Secondary	-	7.1	-
Graduate & Above	9.9	9.3	8.8
Educated (Secondary & Above)	9.0	7.7	7.1
<b>All</b>	<b>2.7</b>	<b>1.9</b>	<b>2.2</b>

Unemployment rates on usual principal and subsidiary status basis.

Source : NSSO Surveys, 43<sup>rd</sup> Round (1987-88), 50<sup>th</sup> Round (1993-94) and 55<sup>th</sup> Round (1999-00)

2.27 The mismatch is most evident when the criterion of education is combined with age. As shown in Table 2.9, the unemployment rate for educated (secondary and above) persons in the age group 15-29 in 1993-94 was as high as 18.5%. If we focus on those in the age group 15-29 who have any form of technical education, the unemployment rate is even higher at 27.3% in 1993-94. It is interesting to note however that according to the NSS, the incidence of unemployment among educated youth, both for general and technical education, declined sharply between 1993-94 and 1999-2000. Unemployment rates for educated youth in 1999-00 are still high at 14.8% for secondary education and above and 23.7% for all types of technical education, but they are significantly lower than in earlier years.

2.28 The high rate of unemployment among educated youth is in many ways the core of the problem because it creates a sense of despair across a wide section of the population including not only the educated youth but their parents and families. It needs to be emphasised that the aspirations of this group cannot be met just by creating any employment opportunities. Indeed, the reason why this group has high unemployment is precisely because their aspirations are high and they do not just want to take up any

employment that may be available. The problem of unemployment in this category can only be solved if high quality employment is created.

iii) *Variation in Unemployment across Per Capita Consumption Classes*

2.29 The NSS data allow us to examine the incidence of unemployment in different groups of the labour force according to the per capita consumption class of the household to which they belong. Table 2.10a presents the incidence of unemployment in different consumption classes for 1999-2000 based on unemployment as defined in the UPSS definition while Table 2.10b uses the CDS definition. We find that the lower consumption groups show much lower unemployment rates using the UPSS definition but the pattern is reversed when using the CDS definition. This reflects two features of the labour force in the lower income groups. On the one hand, their poverty makes it impossible for them to wait for appropriate work for any length of time and they are therefore likely to take up work even if it is of sporadic nature. This accounts for lower rate of unemployment on the UPSS measure. However, the nature of employment that they get makes them more vulnerable to the uncertainties of labour demand in the market for casual labour. This is reflected in the higher rate of unemployment on the CDS measure which reflects intensity of employment.

**Table 2.9**

**Unemployment Rates\* (%) amongst Educated Youth**

Year	Secondary education & above			All types of Technical Education		
	Rural	Urban	Combined	Rural	Urban	Combined
1983	20.4 (2.5)	30.0 (10.7)	20.7 (4.2)	25.0	23.9	24.4
1987-88	15.9 (3.8)	16.6 (12.1)	16.2 (5.4)	24.0	20.7	22.1
1993-94	17.0 (2.9)	20.8 (10.8)	18.5 (4.6)	29.0	25.9	27.3
1999-2000	12.5 (3.7)	18.3 (11.2)	14.8 (5.4)	22.8	24.5	23.7

\* On Usual Status Basis

Note: i) Technical Education comprises of Additional Diplomas or certificates in Agriculture, Engineering/Technology, medicine, crafts and other subjects.

ii) Youth means age group 15-29

iii) Figures in the parentheses show the unemployment rate among youth as a whole.

**Table 2.10 (a)**

**Unemployment Rates\* by Household Monthly Per Capita Expenditure Class (1999-00)**

Monthly Per Capita Expenditure Class (Rupees)		Unemployment Rate (per cent of labour force)	
Rural	Urban	Rural	Urban
0-225	0-300	1.06	2.91
225-255	300-350	1.02	5.21
255-300	350-425	1.27	4.08
300-340	425-500	0.98	5.43
340-380	500-575	1.20	5.81
380-420	575-665	1.43	8.12
420-570	665-775	1.59	5.85
470-525	775-915	1.79	4.95
525-615	915-1120	1.78	5.08
615-775	1120-1500	2.21	4.21
775-950	1500-1925	2.44	3.49
950 & above	1925 & above	2.54	2.99
<b>All</b>	<b>All</b>	<b>1.43</b>	<b>4.63</b>

\* Unemployment rates on Usual Principal and Subsidiary Status basis  
Source : NSSO Survey 55<sup>th</sup> Round (1999-00)

**Table 2.10 (b)**

**Unemployment Rates\* by Household Monthly Per Capita Expenditure Class (1999-2000)**

Monthly Per Capita Expenditure Class (Rupees)		Unemployment Rate (per cent of labour force)	
Rural	Urban	Rural	Urban
0-225	0-300	11.31	9.61
225-255	300-350	9.62	9.67
255-300	350-425	8.12	8.20
300-340	425-500	7.46	9.20
340-380	500-575	6.56	9.20
380-420	575-665	6.18	8.63
420-570	665-775	6.48	8.19
470-525	775-915	6.14	7.18
525-615	915-1120	5.60	6.65
615-775	1120-1500	6.06	5.68
775-950	1500-1925	5.57	4.67
950 & above	1925 & above	5.25	4.10
<b>All</b>	<b>All</b>	<b>7.21</b>	<b>7.65</b>

\* Unemployment rates on Current Daily Status basis

Source : NSSO Survey 55<sup>th</sup> Round (1999-00)

*vi) Regional Variations*

2.30 The rate of unemployment also varies sharply across states. As shown in Table 2.11 the unemployment rate for 1999-2000 varies from levels of around 3% in Himachal Pradesh and Rajasthan to about 12% in Tamil Nadu, 15% in West Bengal and almost 21% in Kerala. It is interesting to note that these inter-state variations are consistent over time and the same states had high unemployment rates in 1993-94 and 1987-88.

2.31 The extent of variation across states is not easy to explain though some tentative hypotheses suggest themselves. States where wages are kept higher than the neighbouring regions either by strengthening the bargaining power of labour or by provision of social security (Kerala, West Bengal and Tamil Nadu) have a higher incidence of unemployment. However, the effect of economic and social conditions across States on employment situation, more particularly on quality of employment, requires to be explored further.

**3. Some Structural Characteristics of Employment**

2.32 In assessing the employment situation in the country it is important to recognize two other distinctions. The first is the distinction between organised sector employment and other employment and the second between wage employment and self employment.

*i) Organised Vs. Unorganised Sector Employment*

2.33 Much of the concern about the lack of employment opportunities reflects a strong preference for employment in the organised sector, which usually refers to employment in the government and in establishments employing more than 10 persons. These jobs typically provide much higher levels of wages than the unorganised or informal sector and also provide much greater job security and other benefits. In the case of government employment the wage rates for the lower skill categories are significantly higher than could be earned even in the private organised sector for similar levels of skills and the level of job security is virtually infinite.

2.34 While there is a large unsatisfied demand for these jobs, the size of the organised sector in our economy is relatively small and the scope for expansion of employment in this sector is therefore relatively limited. The main source of information on employment in the organised sector is the Employment Market Information (EMI) Programme of the Ministry of Labour which compiles data based on returns submitted by all establishments employing more than 10 persons. The available information is summarised in Table 2.12 and shows that organised sector employment in 1999 is only 28.11 million, or about 7% of the total employment of over 397 million in the economy. Furthermore, as much as 19.41 million, or over two-thirds of total organised sector employment, is in the public sector.

**Table 2.11****Unemployment Rates\* in Major States**

(per cent of labour force)

States	Unemployment rate		
	1987-88	1993-94	1999-2000
1. Andhra Pradesh	7.35	6.67	7.94
2. Assam	5.09	7.96	8.00
3. Bihar	4.04	6.25	7.35
4. Gujarat	5.79	5.73	4.63
5. Haryana	7.59	6.59	4.67
6. Himachal Pradesh	3.12	1.82	2.93
7. Karnataka	5.06	4.89	4.61
8. Kerala	21.19	15.50	20.77
9. Madhya Pradesh	2.86	3.42	4.60
10. Maharashtra	4.67	4.97	7.09
11. Orissa	6.44	7.28	7.38
12. Punjab	5.07	3.08	4.15
13. Rajasthan	5.74	1.33	3.06
14. Tamil Nadu	10.36	11.44	12.05
15. Uttar Pradesh	3.44	3.45	4.27
16. West Bengal	8.13	9.87	14.95
17. Delhi	4.77	1.91	4.58
<b>All India</b>	<b>6.09</b>	<b>6.03</b>	<b>7.32</b>

\* Current daily status basis  
Source : NSSO

2.35 It is possible that the EMI data under-estimate the size of organized private sector employment because the EMI system is based on returns that are voluntary for establishments employing between 10 and 25 workers and mandatory only above that level. There is no census of establishments which would give a firmer fix. It is also very likely that private sector establishments understate employment. The likelihood that the EMI does not adequately capture organised sector employment is borne out if we compare the EMI based estimates of employment in the organised manufacturing sector with

estimates from the Annual Survey of Industries (ASI). As per ASI data, (adjusted for non reporting units) the total factory sector employment in manufacturing , excluding repair services was 7.97 million in 1993-94. The corresponding estimate from EMI was only 6.40 million. The ASI figures are thus seen to be higher by 25% . It should be noted however that even if the EMI estimates of the share of employment in the organised sector are revised upwards to reflect this discrepancy, the size of organised sector in total employment will still be below 10%.

2.36 One reason why the share of the organised sector in total employment is relatively small is the predominance of agriculture which provides almost no organised sector employment. However this is not the only reason. As shown in Table 2.13, the share of the organised sector is also quite low in the other sectors. In the manufacturing sector, for example, it is as low as 14%, indicating that as much as 86% of the employment generated in manufacturing is in the unorganised sector i.e. handlooms and power looms, other village industries, the tiny sector and the smaller SSI units.

2.37 Trends in organized sector employment revealed by Table 2.12 show that organized sector employment is not growing rapidly and indeed is decelerating. Organised sector employment grew relatively slowly at 1.20% per annum during the 1983-94 but then slowed down further to only 0.53% between 1994 and 1999. This is certainly a matter of concern given the strong preference for organized sector jobs. However it is important to note that the deceleration was entirely due to the slowing down in employment in the public sector from a growth rate of 1.52% per year between 1983 and 1994 to a negative growth of -0.03 % per year during 1994-99. The trend in the organised private sector was the reverse. It grew by only 0.45% per year between 1983 and 1994, but then accelerated to 1.87% per year between 1994 and 1999. The faster growth in private sector employment did not offset the effect of the slow down in public sector employment in the organised sector because the private sector share of the employment in the organised sector was only one third.

2.38 It is important to recognise that public sector employment is unlikely to accelerate in future. Both the Central and State governments are burdened with excess staff and both face severe financial constraints which will force measures to reduce the size of government. The central government has already declared that it plans to reduce the total size of government employment by about 2% per year over the next 5 years. Employment in the public sector enterprises is also unlikely to expand rapidly as most public sector undertakings are seriously over-manned. In fact their very survival in the more competitive environment they face today, which will only become more competitive in future, depends upon their being able to trim excess labour. Even if extent of actual

retrenchment is limited, future expansion in employment is likely to be severely constrained until existing excess labour is absorbed through output expansion.

**Table 2.12**

**Total Employment and Organised Sector Employment**

Sector	Employment (Million)				Growth rate (% per annum)	
	1983	1988	1994	1999-00	1983-94	1994-2000
Total Population	718.21	790.00	895.05	1004.10	2.12	1.93
Total Labour Force	308.64	3.49	381.94	406.05	2.05	1.03
Total Employment	302.75	324.29	374.45	397.00	2.04	0.98
Organised Sector Employment	24.01	25.71	27.37	28.11	1.20	0.53
-Public Sector	16.46	18.32	19.44	19.41	1.52	-0.03
-Private Sector	7.55	7.39	7.93	8.70	0.45	1.87

Note:

1. The total employment figures are on Usual Status (UPSS) basis
2. The Organised sector employment figures are as reported in the Employment Market Information System of Ministry of Labour and pertain to 31<sup>st</sup> March of 1983, 1988, 1994 and 1999
3. The rate of growth of total employment and organised sector employment are compound rates of growth

**Table 2.13****Organised sector jobs in employment by industry**

Industry	Employment (million)				Share of Organised Sector (per cent)	
	1993-94		1999-2000		1993-94	1999-00
	Total@	Organised Sector*	Total@	Organised Sector*		
Agriculture	242.46	1.48	237.56	1.39	0.61	0.58
Mining & Quarrying	2.70	1.09	2.27	1.01	40.37	44.49
Manufacturing	42.50	6.40	48.01	6.75	15.05	14.06
Electricity	1.35	0.97	1.28	1.00	71.85	78.13
Construction	11.68	1.23	17.62	1.18	10.53	6.70
Wholesale & Retail Trade	27.78	0.45	37.32	0.49	1.62	1.31
Transport, Storage & Communication	10.33	3.11	14.69	3.15	30.11	21.44
Financial Services	3.52	1.53	5.05	1.65	43.46	32.67
Community, Social & Personal Services	32.13	10.93	33.20	11.49	34.02	34.61
<b>All Sectors</b>	<b>374.45</b>	<b>27.18</b>	<b>397.00</b>	<b>28.11</b>	<b>7.26</b>	<b>7.08</b>

\* As on 31.3.1993 and 31.3.1999

@ As on 1.1.1994 and 1.1.2000

Source : 1. DGE&T for employment in organised sector  
2. 55<sup>th</sup> Round Survey of NSSO for total employment

2.39 Rapid growth in organised sector employment in future therefore depends crucially upon employment growth in the private sector. The experience of the 1990s does show faster growth in organised sector employment in the private sector and this is reassuring. However this growth has to be accelerated very considerably if it is to offset the continued stagnation in public sector employment and generate faster growth in total organized sector. This clearly depends upon the rate of growth of the economy as a whole and the growth of the organised sector within the total. The latter depends critically upon reform of labour laws, which discourage expansion of employment growth in the organised sector. We will have more to say on this issue later in the report.

2.40 Since the potential growth of total organised sector employment in the next ten years will be limited, the employment strategy in the next decade must recognise that the bulk of the growth in employment will have to come from the unorganised sector as defined and identified under present conditions. How to ensure that this sector can provide a sufficient supply of high quality job opportunities is a major challenge.

**Table 2.14**

**Proportion of self-employed among the workers by industry: 1999-2000**

Industry	(Per cent)		
	Rural	Urban	Combined
Agriculture	57.9	57.2	57.7
manufacturing, mining, electricity, gas and water supply, construction	45.4	33.8	40.3
trade, transport, financial, ownership of dwellings, community, social and personal services	52.9	44.6	48.2
<b>All industries</b>	<b>55.9</b>	<b>42.1</b>	<b>52.9</b>

Source: NSSO Surveys

ii) *Self Employment vs Wage Employment*

2.41 The distinction between self-employment and wage employment is also important for employment policies. Table 2.14 presents the share of self-employment in different sectors of the economy and in the rural and urban areas separately. It shows that as much as 53% of the total workforce in all sectors was engaged in self-employment in 1999-2000. The proportion was higher at 56% in rural areas, reflecting the classification of farmers as self-employed, but it is interesting to note that even in urban areas the proportion of self employed was as high as 42%.

2.42 Self employment covers a large spectrum of economic activities with high income professional services such as doctors, lawyers, consultants, architects etc. at one end while at the other end of the spectrum there are self employment activities involving much lower levels of skills and incomes, e.g. certain types of khadi and handloom activity, village and tiny industries and traditional services such as barbers, artisans, craftsmen, small retail outlets etc.

2.43 Changes in the composition of employment between self-employment, regular salaried employment and casual employment are shown in Table 2.15. The share of self-employment has declined from 58.9% in 1977-78 to 52.9% in 1999-2000. This has occurred primarily in rural areas reflecting the decline in the proportion of farmers cultivating their own land owing to fragmentation of holdings. The proportion of self-employment to total employment in the urban areas has been more or less constant around 42%.

2.44 The share of regular salaried employment has fluctuated marginally around 14% for the economy as a whole. As we would expect, it is much higher in urban areas at around 40% and lower in rural areas at around 7%. However, there is a sharp increase in the share of casual employment over time. This reflects the displacement of marginal cultivators and their conversion into agricultural labour. As a result casual labour increased from 29.7% of rural employment in 1977-78 to 37.3% in 1999-2000. The share of casual labour in urban employment has fluctuated over the past two decades. It increased from 16.9% in 1987-88 to 18.3% in 1993-94 but then declined again to 17.8% in 1999-2000.

2.45 The increase in the share of casual labour in total employment is sometimes regarded as an indication of deteriorating employment quality since this type of employment is not associated with job security or other employment benefits. However it is worth noting that the increase in casual labour in the 1990s has been associated with a significant acceleration in the growth of real wages. Table 2.16 presents estimates of the annual growth in wage rates of casual labour between 1987-88 and 1993-94 and between

**Table 2.15****Distribution of Workers (Usual Status) by Category of Employment**

(per cent)

Year	Category of Employment		
	Self Employment	Regular Salaried	Casual
<b>1. Rural Areas</b>			
1977-78	62.6	7.7	29.7
1983	61.0	7.5	31.5
1987-88	59.4	7.7	32.9
1993-94	58.0	6.4	35.6
1999-00	56.0	6.7	37.3
<b>2. Urban Areas</b>			
1977-78	42.4	41.8	15.8
1983	41.8	40.0	18.2
1987-88	42.8	40.3	16.9
1993-94	42.3	39.4	18.3
1999-00	42.1	40.1	17.8
<b>3. Rural and Urban Combined</b>			
1977-78	58.9	13.9	27.2
1983	57.4	13.9	28.7
1987-88	56.0	14.4	29.6
1993-94	54.8	13.2	32.0
1999-00	52.9	13.9	33.2

Figures for the share of self employed, regular salaried employed and casual workers for the year 1972-73 are 61.4% , 15.4 % and 23.2% respectively for the Rural and Urban combined.

Source: NSSO Surveys

**Table 2.16**

**Growth of Average Daily Wage Earnings in 1993-94 Prices in Rural India**

	Rural Males		Rural Females	
	1987-88 to 1993-94	1993-94 to 1999-00	1987-88 to 1993-94	1993-94 to 1999-00
Public Works	1.55	3.83	1.90	5.04
Casual Labour in Agriculture	1.36	2.80	2.34	2.94
Casual Labour in Non- Agriculture	1.33	3.70	1.32	5.07
Casual Labour in all Activities	0.77	3.59	1.95	3.19

Source : NSSO Surveys for 1987-88, 1993-94 and 1999-2000

1993-94 and 1999-2000. The rate of growth in the second period was much faster than in the first. This suggests that while dependence on casual labour may have increased, this was accompanied by a sufficient growth of productivity and tightening of the labour market to allow growth in real wages.

2.46 Self-employment in the urban areas will remain a very important source for growth of employment in future and this is broadly in line with patterns observed in other developing countries. Self-employment is particularly important for women in urban areas as this type of employment is often particularly well suited to the needs of many women workers. As female participation in the work force increases in future, growth of self-employment opportunities will be an important factor matching employment possibilities with employment needs. However it is important to emphasise that self-employment requires access to capital and entrepreneurial skill and this means that many forms of self-employment may not be best suited to meet the employment needs of the lowest income groups which will continue to depend heavily upon the availability of wage employment.

2.47 The quality of a great deal of wage employment is very low and this is a major problem. It could be improved if there is a progressive shift from casual employment to regular wage employment but this depends upon the growth of the organised sector

relative to unorganised sector and partly also on the pace of reform of the labour laws. More flexible labour laws would encourage greater dependence upon regular employment with an improvement in the quality of employment for labour as a whole.

#### **4. Some Implications for Employment Policy**

2.48 The assessment of the employment unemployment situation presented in this chapter suggests the following broad conclusions about the nature of the unemployment problem in India.

- a. Although the extent of open unemployment in India, as conventionally measured is not high, the rate of unemployment has increased in the 1990s which is matter of concern.
- b. There are two factors which underlie the perception that employment continues to be a serious problem. First, the quality of a large volume of employment generated in the system is very low, in the sense that it does not provide an adequate level of income even to keep a family out of poverty. Second, unemployment is very high among certain groups, especially among educated youth, indicating a serious mismatch between the expectations of new entrants to the labour force and the quality of employment opportunities available to them.
- c. Given the high expectations of the increasingly better educated new entrants to the labour force the employment problem for this group cannot be addressed simply by creating more jobs of the same low quality as exist at present. What is needed is a strategy that will create more high quality jobs which generate higher levels of income.
- d. In addition to creating sufficient number of new employment opportunities to meet the rising expectations of the new entrants into the labour force, it is necessary to replace existing low quality employment in which a large section of the existing labour force is engaged, with higher quality employment which will improve their income levels significantly. This would be desirable even if it implies the disappearance of existing low quality jobs and their replacement by higher quality jobs.
- e. There is a very strong preference for organised sector jobs, especially government jobs which are associated with near total employment security and remuneration levels which are often higher than those prevailing in the market for comparable skill levels. This presents a major problem in meeting expectations since employment in the government sector has been decelerating in the 1990s, and this trend is certainly likely to continue over the next ten years. The demand for

organized sector jobs can be met in future only if there is a rapid growth in organized sector employment in the private sector.

- f. In order to encourage a faster rate of growth of regular salaried jobs in the organised sector than has been seen in the past it may be necessary to make conscious efforts to remove some of the disincentives which discourage rapid expansion of regular employment in the private sector. One of these is the inflexibility of labour laws. Changes in the labour laws to allow greater flexibility to employers are therefore necessary to give employers sufficient incentive to increase employment.
- g. With the best efforts at promoting the growth of regular salaried employment in the organised sector, the contribution of this type of employment to total employment expansion is likely to remain modest in the next ten years. Much of the need for productive and remunerative employment in this period will have to be met through self-employment. This requires supportive policies in other areas, including especially banking and also the regulatory framework regarding self-employment, to ensure adequate growth of employment opportunities in self-employment.
- h. Notwithstanding all possible efforts to promote regular wage employment and productive self employment, a sizeable proportion of work force would still be dependant on the market for casual labour. Improving the quality of this type of employment – in terms of both rising days of employment in a year and rising real wages – is crucially dependant on acceleration of growth with rising productivity accompanied by a sufficient demand for labour to ensure tightening of the labour market.

2.49 In the rest of this report we outline a multi-pronged strategy for employment generation which can respond to these problems.

## CHAPTER 3

### **THE ROLE OF ECONOMIC GROWTH IN EMPLOYMENT GENERATION**

Our assessment of the employment situation presented in Chapter 2 suggests that the employment strategy must have a two-fold objective. It must provide a sufficient expansion in total employment opportunities to absorb the net addition to the labour force and it must also aim at improving the quality of existing employment by replacing some of the low quality employment in which large numbers of the existing labour force are currently engaged by new employment opportunities. The creation of new employment opportunities which displace existing forms of employment, does not create a net addition in total employment, but it is an extremely important part of the structural change needed to improve the quality of employment in the country.

3.2 Employment objectives defined in these terms cannot be achieved through a narrow focus on what are traditionally called employment oriented policies and programmes. They require policies that will affect the behaviour of the economy as a whole and the structure of employment generated. The policy interventions needed are therefore wide-ranging often going beyond issues which are normally discussed in the context of employment generation. We have identified the following five broad areas of policy which are relevant in this context.

- Accelerating the rate of growth of GDP, with a particular emphasis on sectors likely to ensure the spread of income to the low income segments of the labour force
- Pursuing appropriate sectoral policies in individual sectors which are particularly important for employment generation. These sectoral policies must be broadly consistent with the overall objective of accelerating GDP growth.
- Implementing focused special programmes for creating additional employment or enhancing income generation from existing activities aimed at helping vulnerable groups that may not be sufficiently benefited by the more general growth promoting policies.
- Pursuing suitable policies for education and skill development which would upgrade the quality of the labour force and make it capable of supporting a growth process which generates high quality jobs.
- Ensuring that the policy and legal environment governing the labour market encourages labour absorption, especially in the organized sector.

In this chapter we focus on the first area i.e. the role of growth in employment creation and the critical macro-economic policies needed to achieve high growth. The other four issues are examined in Chapters 4,5,6 and 7 respectively.

### **1. Employment Generation Through Growth**

3.3 The relationship between growth of GDP and growth of employment is usually characterized by a summary parameter such as the elasticity of employment with respect to GDP, which can be calculated either for employment in the economy as a whole or for employment in individual sectors. The elasticity of employment indicates the percentage growth in total employment (or sectoral employment) to be expected from a one percent growth in GDP (or GDP in individual sectors). In this section we present an assessment of possible employment growth over the next ten years based on alternative scenarios for GDP growth using employment elasticities which reflect recent experience.

#### *i) Employment Elasticities in India*

3.4 Since labour is an input into production, an increase in output is normally associated with an increase in labour use or employment, which implies that the elasticity of employment is generally expected to be positive. However, employment elasticities are typically expected to be less than unity because productivity per person employed is expected to increase over time, which implies that employment increases proportionally less than output. Since productivity per person employed is an important determinant of wage rate and therefore the quality of employment, it is important to recognize that high employment elasticities are not necessarily the best way of achieving employment objectives. Ideally, what is needed is a growth rate of GDP which is high enough to allow employment to expand, while also allowing for growth in productivity to ensure rising real wages and growth of income per person employed in self-employment.

3.5 Table 3.1 presents estimates of employment elasticities for the major sectors of the economy, and also for the economy as a whole, based on data on employment growth and GDP growth for three different periods spanning the past two decades. The estimated elasticities are less than unity in almost all cases though there are some exceptions (especially construction). Table 3.1 also shows that the elasticity of total employment has been declining consistently in each sub-period. This obviously reflects an acceleration in the growth of productivity per person employed, which is a desirable outcome, especially if it is taking place in sectors where productivity per person employed is very low. We note also that employment elasticities may be very low in sectors where there is a great deal of under-employment, which means there is considerable room for output to expand without an expansion in measured employment.

3.6 A remarkable feature of Table 3.1 is that although the employment elasticity declined in the earlier period, the decline was especially sharp in the 1990s. The employment elasticity for the economy as a whole was 0.53 in the period 1977-78 to 1983 and this declined to 0.41 in the period 1983 to 1993-94. It then declined very sharply to 0.15 in the period 1993-94 to 1999-2000 which is less than half the elasticity of 0.38 which was assumed when making employment projections for the Ninth Plan.

3.7 The low employment elasticity in the 1990s reflects the fact that employment growth decelerated in this period while GDP growth accelerated. As shown in Table 3.2, total employment growth decelerated from 2.04% in the first period to 0.98% per year in the second period. Much of the slowdown in total employment growth was due to developments in two important sectors viz. agriculture (including forestry and fishing) and community social and personal services. These sectors, accounting for almost 70% of total employment, experienced no growth in employment in the period 1993-94 to 1999-2000. Employment elasticity in Agriculture and Manufacturing sectors was therefore 0.00 and 0.07 respectively whereas the elasticity used in the Ninth Plan projections was 0.50. Employment growth in manufacturing also slowed down reflecting a continuing decline in the employment elasticity from 0.33 in the period 1983 to 1993-94 to 0.26 in the period 1993-94 to 1999-2000 but this was almost identical to the level of 0.25 assumed in the Ninth Plan (see Table 3.1). The low growth in total employment is therefore not due to slower than expected growth in employment in the manufacturing sector. In transport and communication the elasticity of employment actually increased, compared with the previous period, and was also higher than projected in the Ninth Plan.

3.8 In order to project employment growth in future consistent with alternative assumptions about GDP growth, it is necessary to make some assumptions about how employment elasticities will behave in future. This is inherently difficult because much depends upon changes in technology which are not easy to anticipate. In general however, one would expect that employment elasticities will continue to fall in sectors where productivity per man is currently low and also in sectors where technical change is likely to be labor-saving. Keeping in mind these factors and recent experience we have adopted

**Table 3.1****Elasticity of Employment to GDP**

Sector	Estimated Elasticities			Projected	
	1977-78 to 1983	1983 to 1993-94 <sup>2/</sup>	1993-94 to 1999-00	As used in 9 <sup>th</sup> Plan Projections	Projected for the future
1. Agriculture <sup>1/</sup>	0.45	0.50	0.00	0.50	0.10
2. Mining & Quarrying	0.80	0.69	0.00	0.60	0.00
3. Manufacturing	0.67	0.33	0.26	0.25	0.22
4. Electricity	0.73	0.52	0.00	0.50	0.00
5. Construction	1.00	1.00	1.00	0.60	0.60
6. Wholesale & Retail Trade	0.78	0.63	0.55	0.55	0.50
7. Transport, Storage & Construction	1.00	0.49	0.69	0.55	0.40
8. Finance, Real Estate, Insurance & Business Services	1.00	0.92	0.73	0.53	0.50
9. Community, Social and Personal Services	0.83	0.50	0.07	0.50	0.30
<b>All Sectors</b>	<b>0.53</b>	<b>0.41</b>	<b>0.15</b>	<b>0.38</b>	<b>0.22<sup>3/</sup></b>

Note: Manufacturing includes workers engaged in repair services, except for the year 1977-78.

<sup>1/</sup> Estimated elasticities for agriculture have been calculated on the basis of 3year moving average of GDP at 1980-81 prices for the period 1977-78 to 1983 and 1983 to 1993-94. For the period 1993-94 to 1999-00 we have used the GDP series with base 1993-94 but a three year average is not used since data are not available for 1992-93 or 2000-01.

<sup>2/</sup> This period combines two distinct periods for which data are separately available i.e. 1983 to 1987-88 and 1987-88 to 1993-94. However, 1987-88 was a drought year when employment was abnormally low and this distorts elasticities in both periods. The combined period 1983 to 1993-94 has been used to avoid this distortion.

<sup>3/</sup> *Implicit elasticity based on 6.5% GDP growth.*

**Table 3.2**

**Growth of Employment by Sectors**

Industry	Employed workers <sup>2/</sup> (million)			Annual Growth Rate (percentage)	
	1983	1993-94	1999-00	1983-94	1994-00
Agriculture	207.23	242.46	237.56	1.51	-0.34
Mining & Quarrying	1.76	2.70	2.27	4.16	-2.85
Manufacturing	34.03	42.50	48.01	2.14	2.05
Electricity, gas & water supply	0.85	1.35	1.28	4.50	-0.88
Construction	6.78	11.68	17.62	5.32	7.09
Trade	19.22	27.78	37.32	3.57	5.04
Transport, Storage & Commn.	7.39	10.33	14.69	3.24	6.04
Financial Services	1.70	3.52	5.05	7.18	6.20
Community Social & Pers.Services	23.80	32.13	33.20	2.90	0.55
<b>Total Employment</b>	<b>302.76</b>	<b>374.45</b>	<b>397.00</b>	<b>2.04</b>	<b>0.98</b>

1. Notes to Table 2.1 refers.

<sup>2/</sup> The NSS gives the percentage distribution across industries of each of the four categories of workers. We apply this distribution to the absolute numbers of workers of each category for each year and add up the four categories in each industry to derive estimates of total workers in each industry.

a set of employment elasticities given in Col.6 of Table 3.1 for projecting future employment. The rationale for our choice is as follows:

- a. Although employment elasticity in agriculture was zero in the period 1993-94 to 1999-2000, we have assumed a small positive elasticity of 0.1 for the future primarily because the higher growth rate being projected for agriculture implies a structural shift towards non-cereal agriculture, which is more labor-using. The very low elasticity for agriculture compared with some of the other sectors is however reasonable because productivity in this sector is relatively low with considerable under-employment, at least in large parts of the country. It is therefore reasonable to assume that the growth of value added in this sector should not be expected to generate a large increase in total employment but rather to reduce the degree of under-employment with an increase in both wage rates and self-employment income per person.
- b. Employment elasticities have been assumed to be zero in Mining and Quarrying and in Electricity. These are sectors where there is considerable over-manning at present reflecting the dominance of public sector enterprises and rationalization of the labour force has been unavoidable. Keeping total employment constant in these sectors would enable the excess labor to be absorbed by expansion expected over the next ten years.
- c. The elasticity of employment in manufacturing is assumed to be 0.22 which is slightly lower than the 0.26 observed in the period 1993-94 to 1999-2000. A further reduction in employment elasticity in this sector is reasonable since liberalization has accelerated the process of technological modernization and industrial restructuring, including labour rationalization, and this process is expected to continue in the next ten years. However, we expect the decline in the employment elasticity, in the manufacturing sector as a whole to be moderated compared with past trends because we would expect that manufacturing growth in future will involve a shift away from the highly capital intensive industries emphasized which absorbed a large part of total investment in the past, towards more labour using industries. Even though the employment elasticities in each individual industry may fall reflecting technology changes, the shift towards more labour using industries would moderate the decline in the total employment elasticity for the manufacturing sector as a whole. It is worth noting that the employment elasticity of 0.22 assumed in our projections implies that a 10% growth in value added in manufacturing will lead to only 2.2 per cent growth of employment in this sector.

- d. Elasticities for other sectors are projected on the basis of a further decline compared with the observed elasticity in 1993-94 to 1999-2000 (see Table 3.1). The only exception is community social and personal services which showed employment elasticity of only 0.07 in the period 1993-94 to 1999-2000. This category includes public administration and defence, where growth in employment may well be zero or even negative, but it also includes health and education services which will certainly need to expand and are likely to generate considerable additional employment. We have therefore assumed an employment elasticity of 0.30.

*ii) Alternative Employment Projections*

3.9 Using the employment elasticities reported in Table 3.1 we have made alternative projections for employment in the period 2002-03 to 2011-12, i.e. the period of the Tenth and Eleventh Plans using three different assumptions about economic growth. The three growth assumptions we have used are: a base line scenario in which GDP grows at 6.5%, a high growth scenario with GDP growth at 8 percent and a rapid growth scenario with GDP growth at 9%. The sectoral growth rates associated with these scenarios are presented in Table 3.3. Tables 3.4, 3.5 and 3.6 present the detailed employment outcomes for the economy as a whole and also for individual sectors associated with each scenario.

3.10 The major features of the employment projections presented in Tables 3.4, 3.5 and 3.6 can be summarized as follows.

- a. The level of total employment in the economy will be significantly affected by the overall growth rate of GDP. In the base line scenario, with GDP growing at 6.5% the total employment increases from around 397.0 million in 1999-2000 to 467.81 million in the terminal year 2011-2012. However, terminal year employment increases to 482.26 million in the high growth scenario with 8% GDP growth and further to 495.18 million in the rapid growth scenario with 9% GDP growth.
- b. The quantitative significance of the impact of a higher rate of growth of GDP on employment creation can be seen by comparing the additional employment generated by higher growth with the employment generated by various special employment schemes. Acceleration in GDP growth from 6.5% to 8% generates an extra 14.45 million employment opportunities by the terminal year 2012 and a shift to 9% growth yields an additional 12.92 million in the terminal year. Against this, the total employment generated from special employment programmes was 6.0 million in 1993-94 and it has declined to 4.4 million in 1998-99 (see Chapter 5). This comparison actually underestimates the beneficial effect of high growth on employment because

**Table 3.3**  
**Alternative Growth Scenarios**

Projections	GDP Growth		GDP Growth 2002-03 to 2011-12		
	1995-96 to 1999-00	2000-01 to 2001-02	Base Line	High Growth	Rapid Growth
1. Agriculture	3.9	2.7	3.9	4.2	4.8
2. Mining & Quarrying	2.5	4.2	4.0	4.7	5.5
3. Manufacturing	5.6	7.1	7.0	10.0	12.0
4. Electricity, gas and water supply	7.2	6.2	7.2	8.3	10.0
5. Construction	7.0	5.7	7.0	8.3	9.7
6. Trade	6.8	8.4	6.7	8.0	9.5
7. Transport, Storage & Comm.	7.7	8.0	7.3	10.3	11.0
8. Financial Services	9.1	7.7	9.0	10.0	11.5
9. Community, Social & Personal Services	9.9	7.7	6.8	7.6	7.8
10. GDP growth	6.5	6.2	6.5	8.0	9.0

**Table 3.4****Employment Projection : Baseline (6.5% growth)**(million)

Industry	Employment in 1999-2000	<u>Projected Employment</u>	
		2007	2012
Agriculture and Allied activities	237.56	243.68	248.47
Mining and Quarrying	2.27	2.27	2.27
Manufacturing	48.01	53.65	57.91
Electricity, Gas and Water Supply	1.28	1.28	1.28
Construction	17.62	23.35	28.69
Trade	37.32	48.25	56.89
Transport, Storage & Comm.	14.69.	18.20	21.02
Financial Services	5.05	6.85	8.54
Community Social & Personal Services	33.20	38.65	42.76
<b>Total Employment</b>	<b>397.00</b>	<b>436.18</b>	<b>467.81</b>
Labour Force A (1.5% growth)	406.05	452.33 (A)	487.29 (A)
Labour Force B (1.8% growth)	406.05	462.12 (B)	505.23 (B)
Unemployment Rate(%)			
With Labour Force A	2.23	3.57 (A)	4.00 (A)
With Labour Force B	2.23	5.61 (B)	7.41 (B)

- Note: 1. Employment Estimates for the year 1999-2000 has been derived by applying the labour force participation rate from the NSS 55<sup>th</sup> Round on the Provisional Totals of Census-2001.
2. Employment projections for 2007 & 2012 has been made using projected sectoral elasticities & projected growth in GDP, 6.5, 8.0 and 9.0 per annum during 2002-12.

**Table 3.5**

**Employment Projection : High Growth (8% growth)**

(million)

Industry	Employment in 1999-2000	<u>Projected Employment</u>	
		2007	2012
Agriculture	237.56	243.99	249.10
Mining and Quarrying	2.27	2.27	2.27
Manufacturing	48.01	55.41	61.78
Electricity, Gas and W.S.	1.28	1.28	1.28
Construction	17.62	24.25	30.93
Trade	37.32	49.79	60.57
Transport, Storage & Comm.	14.69	19.29	23.60
Financial Services	5.05	7.02	8.96
Community Social & Pers. Services	33.20	39.11	43.78
<b>Total Employment</b>	<b>397.00</b>	<b>442.40</b>	<b>482.26</b>
Labour Force A (1.5% growth)	406.05	452.33	487.29
Labour Force B (1.8% growth)	406.05	462.12	505.23
Unemployment Rate(%)			
With Labour Force A	2.23	2.20	1.03
With Labour Force B	2.23	4.27	4.55

**Table 3.6****Employment Projections: Rapid Growth (9.0% growth)**

(million)

Industry	Employment in	<u>Projected Employment</u>	
	1999-2000	2007	2012
Agriculture	237.56	244.77	250.70
Mining & Quarrying	2.27	2.27	2.27
Manufacturing	48.01	56.62	64.49
Electricity, Gas & W.S.	1.28	1.28	1.28
Construction	17.62	25.22	33.45
Trade	37.32	51.61	65.08
Transport, Storage & Commn.	14.69	19.55	24.24
Financial Services	5.05	7.27	9.62
Community Social & Pers. Services	33.20	39.22	44.03
<b>Total Employment</b>	<b>397.00</b>	<b>447.80</b>	<b>495.18</b>
Labour Force A (1.5% growth)	406.05	452.33	487.29
Labour Force B (1.8% growth)	406.05	462.12	505.23
Unemployment Rate(%)			
With Labour Force A	2.23	1.00	-1.62
With Labour Force B	2.23	3.10	1.99

it focuses only on the additional employment generated by higher growth. However, faster GDP growth will also bring about an improvement in the quality of existing employment with a faster growth in real wages and an acceleration of the process of high quality jobs replacing low quality jobs.

- c. Some indication of the extent of the structural shift in employment to be expected in future can be had from the structure of employment shown in Table 3.4 to Table 3.6. In the baseline scenario, the share of agriculture in total employment falls from just under 60% in 1999-2000 to 53.11% in 2011-12. The share of manufacturing increases only modestly from 12.09% to 12.38%. The share of the services sectors (construction, trade, transport storage etc., financial services and community and personal services together) increases from 27.17% to 33.75%. In the high growth scenario the share of agriculture in the terminal year is lower at 51.65% while manufacturing increases to almost 12.81%. The share of the services group increases to 34.8%. In the rapid growth scenario the agriculture share falls to 50.63% manufacturing increases to 13.02% while the services group increases to 35.63%.
- d. An important feature of the projection is that the share of agriculture in total employment falls over time while the share of services increases. The fall in the share of agriculture reflects the fact that total employment growth in agriculture is much slower than the growth in total employment. Nor should this be a cause of alarm since the focus in this sector should be on increasing productivity of the persons employed, which is very low due to under employment. The dominant source of new employment possibilities will be the Services sector including construction, trade, transport, storage and financial services and communication and personal services. This sector will provide over 70% of the increase in employment. Employment in manufacturing also expands, but its contribution to the total increase in employment is only around 17%.

### *iii) Projecting Labour Force Growth*

3.11 To explore the implications of these projections for the unemployment situation we need to compare the employment projections with the projected growth of the labour force. A detailed projection of labour force growth over the next ten years requires a combination of demographic and behavioural modeling. Demographic modeling would yield projections of the growth of population and its age structure which determines the growth of the working age population and this needs to be combined with behavioural modeling to yield projections of labour force participation rates in different age groups. The rural-urban composition of the population is also relevant in this context since participation rates vary between rural and urban areas. A detailed labour force projection along these lines requires detailed data from the 2001 census which would only become

available later in the year and this is being attempted by one of the Working Groups set up in the Planning Commission in connection with the Tenth Plan. However, for the purpose of this report, we have made some assumptions about the likely growth of the labour force over the next ten years taking into account such information as is available from the 55<sup>th</sup> Round of the NSS and the initial data from the 2001 census.

3.12 The results of the 2001 census confirm that population growth has decelerated in the period 1991-2001 (though the deceleration is less than was expected) and this deceleration is expected to continue over the next ten years yielding a growth rate of population of about 1.6% per year over the next decade. Given the age structure of the population, the working age population will definitely grow faster than the growth of total population and a growth rate of 2% can be assumed for the working age population. Moving from the working age population to the labor force requires projection of labor force participation rates and this presents numerous difficulties.

3.13 As pointed out in Chapter 2, the 55<sup>th</sup> Round of the NSS for 1999-2000 showed a sharp decline in participation rates in certain age groups which led to a considerable slowing down in labour force growth to a little over 1% per year even though population growth was almost 2%. Although a further decline in participation rates in the younger age groups can be expected because of the expansion of schooling, the rate of decline in other age groups is not likely to be as sharp as suggested by the 55<sup>th</sup> Round data. This is because, as pointed out in chapter 2, the deceleration between 1993-94 and 1999-2000 was perhaps exaggerated by the unusually high participation rate observed in 1993-94. It is therefore reasonable to assume that while labour force growth will be much closer to the growth rate of the working age population of around 2%, it will not be as low as 1%. Accordingly, we have made two alternative projections of the labor force over the next ten years based on a growth rate of 1.5% per year and 1.8% per year, respectively.

3.14 These growth rates imply that the net addition to the labour force over the next ten years will be between 6.6 million and 8.1 million per year. It may be noted that even the higher labour force growth assumption implies a growth that is significantly less than the growth of 10 million per year indicated in our terms of reference. To that extent, the need for additional jobs is somewhat less than envisaged in our terms of reference though, as pointed out below, it will not be easy to absorb even this reduced flow.

*iv) Implication for Unemployment*

3.15 The unemployment picture which results if the employment projection from each of our alternative GDP growth scenarios is combined with each of the two alternative labour force assumptions, is reported in Table 3.4, 3.5 and 3.6 respectively. These projections of the rate of unemployment have important limitations which we point out

below, but they are nevertheless instructive. The main conclusions can be summarized as follows :

- a. The 6.5% GDP growth scenario yields total employment growth of only about 1.37% per year. This means that if the labour force grows at 1.5% per year, the unemployment rate will continue to rise over the next ten years, increasing from 2.23% in 1999-2000 to 4.00% by 2011-12. If the labour force grows faster at 1.8% per year, then this employment projection actually yields a sharply worsening unemployment situation, with the unemployment rate reaching 7.41% in 2011-12.
- b. In the High Growth scenario, with GDP growing at 8.0%, total employment growth accelerates to around 1.68% per year. If labour force grows at 1.5%, the unemployment rate declines to 1.03% in the terminal year but if labour force grows at 1.8%, then unemployment will still increase sharply to 4.55% in the terminal year.
- c. In the rapid growth scenario where GDP grows at 9%, the situation is much better with total employment increasing by 1.95%. In this case, unemployment falls on both labour force assumptions. Indeed with labour growth at 1.5%, the rate of unemployment actually becomes negative indicating a labor deficit. If labour force increases at 1.8% there will be a decrease in unemployment to 1.99%.

3.16 An obvious limitation of these projections is that the demand for labour (i.e. employment) is projected independent of supply with no room for the impact of adjustment mechanisms which operate in the labour market in response to the emergence of excess demand or excess supply situations. For example, in the real world, if growth of labour demand is inadequate relative to growth of labour, then instead of the sharp increase in open unemployment shown in our projections, we are more likely to see a more moderate increase in open unemployment together with a tendency for surplus labour to be absorbed to a greater extent in residual sectors (e.g. agriculture and certain types of services). Similarly, a scenario of rapid growth in labour demand will not lead to as sharp a reduction of unemployment, and certainly not to negative unemployment rates, as in our calculations if only because the very process of tightening of the labour market will lead to a faster growth in real wages, which will automatically encourage a shift to more labour saving technologies which will moderate the growth in demand for labour though improving the quality of existing employment. Faster growth in real wages could also lead to a supply side response, with an increase in labor force participation rate. Such equilibrating reactions of the labour market can only be quantified through explicit general equilibrium models in which technology choices, real wages and the supply of labor are

endogenously determined. It is doubtful whether the information needed to construct such models is available and in any case the exercise is well beyond the scope of this report.

3.17 These limitations notwithstanding, the projections reported above provide some useful guide for assessing the rate of growth of GDP needed to make a significant difference to the employment situation in the next ten years. With labor force growth at 1.5% the addition to the labor force will be 6.6 million per year whereas the higher labour force growth rate of 1.8% yields an addition of 8.1 million per year. Continuing with GDP growth of 6.5% will certainly not bring about the desired improvement in the employment situation but will only lead to further increases in unemployment albeit with some improvements in the quality of existing employment resulting from the growth of productivity. Our projections suggest that growth rate of GDP between 8% and 9% is needed if we are to achieve our objective of generating enough additional employment to absorb the addition to the labour force and also ensure a sufficient tightening of labour markets to improve the quality of existing employment. An important feature of our projections is that much of the additional employment generated will be in the services sector and not in manufacturing.

## **2. Policies for Accelerating Growth**

3.18 Since rapid growth is important for generating additional employment and for improving the quality of existing employment, any employment strategy must emphasize the policies needed to accelerate growth, especially in sectors which employ large numbers of people. These issues are being examined separately by the Planning Commission in the context of the formulation of the 10<sup>th</sup> Plan and detailed proposals for accelerating growth are expected to emerge from the exercise. In the rest of this chapter we focus on some of the critical macro-level policies that are essential if growth is to be accelerated to 8% or more.

### *i) Investment Levels*

3.19 The rate of investment expressed as a percentage of GDP and the efficiency of investment measured by the incremental capital output ratio (ICOR) are two critical determinants of growth and both are important for policy if we want to accelerate growth in future. The rate of investment (gross domestic capital formation as a percentage of GDP) has fluctuated in recent years averaging around 24.4% in the period 1992-93 to 1999-2000. When the average growth rate was around 6.5%. An investment rate of 24.4% yielding 6.5% growth, implies an ICOR of 3.75. Using this ICOR, an acceleration from 6.5% growth to 8% would require an increase in the investment rate by 5.6 percentage points of GDP, taking the total investment rate to 30%. On the same basis, an acceleration to 9% would require an investment rate of almost 34%.

3.20 These estimates are broadly in line with the experience in East Asia which achieved 8% growth over a long period. Most of these countries typically had investment rates around 35%, with China's investment rates being even higher. However, the contemporary consensus is that investment rates in these countries were perhaps unnecessarily high, with evidence of "wasteful" investment projects. Even if the investment is not actually wasteful, it can certainly be argued that these countries invested heavily in the creation of infrastructure assets in excess of their immediate requirements. There are other examples of fast growing countries such as Chile, which have achieved rapid growth with much lower average levels of investment.

3.21 Keeping in mind past experience and the experience of other countries, and also recognising the scope for reducing ICORs through policies which increase the efficiency of resource use, we feel that an acceleration of growth to 8% could be achieved with an aggregate investment rate of around 29% of GDP, i.e. an increase of 4.5 percentage points of GDP, provided this is accompanied by a significant reduction in ICOR reflecting the pursuit of efficiency enhancing policies. Even so, an increase of 4.5 percentage points in the investment rate would require a major effort and cannot be achieved instantly.

3.22 The proposed increase in the rate of investment has to be financed by some combination of an increase in domestic savings and an increase in the foreign resource inflow. In our view, the strategy for achieving the increase in investment could be as follows:

- a. The increase in the rate of investment of 4.5 percentage points of GDP could be financed by a combination of an increase in domestic savings of around 3 percentage points and an increase in the net foreign investment inflow of 1.5 percentage points.
- b. Additional FDI flows of 1.5 percent of GDP imply an increase in the FDI flow from about \$6 billion inclusive of FII investments at present to around \$12 billion. This is not an impossible target given the level of inflows attracted by many developing countries, but success in this area depends critically upon other policies being suitably supportive. We note that the proposed expansion in FDI flows would require the current account deficit to expand from a little over one percent of GDP at present to around 2.5 percent. This is well within prudent limits, especially if the increase is financed by foreign direct investment.
- c. The proposed increase of around 3 percentage points of GDP in domestic savings would have to come from household savings, corporate sector savings or public sector savings. Table 3.7 shows recent trends in savings from these three sources. The household sector shows a steady increase in its savings over time as a percentage of GDP. The private corporate sector also shows an increase with some

reduction in recent years. Public sector savings on the other hand show a steady deterioration from a positive contribution of 2.0% of GDP in 1991-92 to a negative savings of 1.2.% in 1999-2000. These estimates of public sector savings include gross savings of public sector units. If we focus only on government savings the deterioration would be more marked.

- d. These trends suggest that the improvement of about 3 percentage points of GDP in domestic savings will have to come largely from a turnaround in government savings. If the entire turnaround of 3 percentage points of GDP, were achieved by the government sector it would enable the combined fiscal deficit of the Centre and States to be reduced from 10% of GDP at present to 7%, while keeping the rate of investment in the government sector unchanged. However, if public investment by the government also needs to be increased as a proportion of GDP, and we shall argue later that such an increase is indeed necessary to make up deficiencies in the infrastructure and social sectors, then government savings have to increase by a larger amount. For example, if the rate of public investment (both Centre and States) has to increase by 1 percentage point of GDP while keeping the combined fiscal deficit at 7%, then the government savings rate has to be increased by 4 percentage points of GDP. If the combined fiscal deficit of the Centre or the States has to be reduced to 5% of GDP, which is surely desirable, and public investment raised by 1 percentage point, then the improvement in government savings needed is around 6 percentage points of GDP.
- e. The above target is broadly consistent with the degree of fiscal correction envisaged in the Fiscal Responsibility and Budget Management Bill recently submitted to Parliament. The Bill envisages a reduction in the Centre's revenue deficit from 3.6% in 2000-01 to zero by the year 2005-2006, i.e. an improvement of 3.6 percentage point of GDP by the Centre alone. If the State can reduce their revenue deficit by 2.4 percentage points the total improvement for the Centre and States combined would be 6 percentage points of GDP over a five-year period
- f. Reducing the revenue deficit is only possible if strong fiscal measures can be taken to reduce subsidies and increase tax realisation. Some examples of what is needed are:
  - reducing subsidies by raising user charges in a number of areas where the subsidy is not justifiable because it is not targeted at the poor. In the case of the Central government this includes raising passenger fares in the railways, raising university fees in Central Universities and raising prices of kerosene and LPG both which are heavily subsidised and not effectively targeted at the poor. State governments have to act to raise

power tariffs for agriculture and household consumers, which at present are heavily subsidised, water charges for irrigation which cover only a fraction of the maintenance cost, fares in state transport corporations, fees in state universities, and municipal charges for water which are heavily subsidised.

- Eliminating the burden of losses in public sector enterprises by closing down loss making public sector enterprises or handing them over to the private sector.
  - Realise asset values in profit making public sector enterprises by privatising these units and using the resources thus obtained to develop much needed social and economic infrastructure.
  - Simplifying the tax system and modernising tax administration to achieve greater revenue realisation through better compliance and coverage.
  - Trimming the government bureaucracy which suffers from massive over staffing
- g. While the fiscal measures outlined above will have a positive effect on public savings, they could have a negative effect on private savings because of the reduction in private disposable income consequent to higher tax realisation and lower subsidies. This reduction in disposable income is unlikely to be accompanied by an equivalent cut in private consumption so private savings are likely to be lower than they otherwise would be. Special efforts will therefore be needed to ensure that the private savings rate is maintained as a percentage of GDP which implies an increase in private savings as a percentage of disposable income. To some extent, the achievement of high growth will itself stimulate private savings, since there is evidence that private savings increase when growth accelerates. However, some additional efforts will be needed to ensure that private savings do not suffer.
- h. The most effective means of promoting private savings is the development of long-term contractual savings schemes. The recent opening of the insurance sector to private entrants is an important development in this context, since it will bring an improvement in insurance services and innovation in insurance products not only from the new private sector entrants but also from the existing public sector incumbents which can be expected to improve in the face of competition. Speedy implementation of policies already announced must be undertaken so that new insurance and pension products become available as quickly as possible.

**Table 3.7**

**Domestic Savings Rates**

( % of GDP at current market price)

	Public Sector	Private Corporate Sector	Household Sector	Total
1991-92	2.0	3.1	17.0	22.0
1992-93	1.6	2.7	17.5	21.8
1993-94	0.6	3.5	18.4	22.5
1994-95	1.7	3.5	19.7	24.8
1995-96	2.0	4.4	18.1	25.1
1996-97	1.7	4.5	17.0	23.2
1997-98	1.5	4.2	17.8	23.5
1998-99	-0.8	3.7	19.1	22.0
1999-00	-1.2	3.7	19.8	22.3

Source: Economic Survey 2000, Ministry of Finance

3.23 The broad approach outlined above, as well as the specific suggestions offered, are not new. They have long been advocated by many expert bodies and also within government. Our purpose in listing them here is simply to point out that they are essential for mobilising the resources needed to promote growth in the economy, which is an essential requirement for employment creation.

*ii) Policies to Promote Efficiency*

3.24 As pointed out earlier, a higher investment rate is only one of the elements of a strategy for higher growth. The other element must be an improvement in efficiency. Higher levels of efficiency in all sectors are absolutely essential if the economy is to be brought to a growth path of 8% or more within the constraints of total invertible resources described above. The most effective instrument to ensure efficiency is competition, which in today's world must be both domestic and international.

(a) Domestic Competition

3.25 Intensification of competition is sometimes perceived to be against the interest of employment since the survival of weaker firms may seem to be endangered by stronger competitors, leading to concern about the loss of employment in these firms. This approach ignores the fact that a high employment strategy for the economy as a whole is not the same as a strategy of protecting employment in particular firms. A competitive environment puts pressure on all firms to improve their efficiency. While it is possible in

principle that every firm gains sufficiently in efficiency to survive in the new environment, this is not likely to happen in practice. Typically, competition will lead to a generalised improvement in efficiency in many firms which will become more competitive and will flourish, but all firms will not be able to show the same efficiency gains and many of the weaker firms, which are not be able to improve sufficiently, will therefore be pushed out. It is important to recognise that a wake out of domestic industries, in which weaker firms die out or are taken over by stronger firms, is an inevitable and indeed even desirable process in our situation where many units are operating below economic scale. Such restructuring is not necessarily harmful for total employment. The decline in employment in the weaker units may be offset by the expansion of employment in stronger units. The total employment generated by the restructured industry is likely to be more sustainable and more capable of showing growth in the longer term. Given the challenges posed by globalization a failure to accept restructuring will only jeopardize employment and growth in the medium term. However, it must also be recognised that the process can be dislocating in the short run. It is necessary to explore ways of minimizing the costs of dislocation, especially when these are concentrated in particular industries or regions.

3.26 The economic reforms implemented since 1991 have already created an environment when domestic competition is much freer. Policies such as industrial licensing, limits on size, restrictions on foreign investment etc. all of which limited the scope for competition in the domestic economy are things of the past. However, the process is still incomplete. Important industries such as sugar remain subject to controls in terms of restrictions on the ability to set up new sugar mill within a certain radius of another and also a continuing obligation to surrender a portion of the output at an administered price to the government for supply through the public distribution system. In the case of dairying, the Milk Marketing Products Order limits potential expansion by competing dairying units based on arbitrary assessments of milk shed capacity. Coal mining is a major sector which has not yet been opened up to domestic competition except for captive coal mines. The pharmaceutical industries remain subject to extensive price control. The policy of reservation for the small scale sector, which is discussed in greater detail in Chapter 4 is another example of a policy which restricts domestic competition.

3.27 In our view, the Central Government should initiate action to increase competition in all the areas where government policy continues to impose restrictions and controls. Continence controls in these areas when the rest of the industrial sector has been liberalized is an anachronism. There is also need for parallel action at the State government level to remove a large number of regulatory restrictions, which currently limit competition. Several such restrictions exist in the areas of agriculture, road transport and real estate which are discussed individually in Chapter 4.

## (b) International Competition

3.28 International competition is the other spur to efficiency which is especially important in our situation because the economy has been insulated from international competition to a much greater extent than other developing countries. The past ten years of reforms have seen considerable improvement in this area with a gradual reduction in quantitative restrictions (QRs) and also a reduction in tariff levels. QRs on imports have been completely phased out with effect from April 1, 2001 bringing India's trade policies in line with current international practice in this respect. The principle impact of the QR removal is that consumer goods, which have long been insulated from international competition, now face competition from imports, subject only to tariff protection. Our tariff rates have also come down from the very high levels that existed earlier, but they are still among the highest in the world and it is in this area that policy must concentrate.

3.29 It has often been stated that it is the objective of government policy to bring our tariff level down to levels comparable with those prevailing in East Asia. The Finance Minister's Budget Speech for 2001-02 provides the most recent and clearest statement of this objective with monitorable milestone in this regard.

“I have already promised that our customs tariff would be brought down to East Asian levels. I will like to move progressively within three years to reduce the number of rates to the minimum with a peak rate of 20%. The modalities for this will be worked out in time for the next budget.”

We welcome the statement of a target for the peak rate and the intention to announce modalities for the three year transition before the Budget for 2002.

3.30 Some indication of the extent of tariff protection in India can be seen from Table 3.8 which shows weighted average tariff rates for various broad import groups. It may be noted that although the average tariff rate declined steadily from 1991 to 1996, thereafter it edged up again, due to the imposition of various surcharges. The weighted average tariff level (excluding CVD) on the basis of the 2001-02 Budget is about 34%. The corresponding import weighted tariff rates in East Asia are much lower amounting to 14.3% for Indonesia, 7% for Korea, 9.4% for Malaysia and 8.5% for the Philippines. The figure for China is 18.5% at present and is expected to be phased down to less than 10% in the coming years as part of China's agreement in connection with its WTO entry. If the target for India is taken as a weighed average (excluding agriculture) of 10% to be achieved at the end of three years, it requires a reduction of approximately 8 percentage points per year in the weighted average tariff.

3.31 It is important that the proposed phasing of tariff reduction for different items should be indicated as early as possible to allow domestic industry sufficient time to

adjust. To encourage investment in an environment where tariff levels are expected to fall, it is necessary to ensure that the phasing of tariff reduction is such that tariffs on capital goods are reduced as early as possible to their final resting position. This in turn draws attention to the need to lower tariffs on critical inputs into capital goods, including especially components, steel and other metals. In order to facilitate dispassionate discussion of these issues, and to enable industry to take a composite view in full knowledge of what is intended for both outputs and inputs, we recommend that the proposed phasing should be published in the form of a discussion paper by September 2001.

3.32 The prospect of reducing protection levels for domestic industry is likely to create fears and uncertainties. However, it needs to be kept in mind that reduced protection is an essential part of the process of bringing our cost structures in line with those prevailing the rest of the world and enabling our producers to become competitive internationally. This is a process being undertaken by all emerging market countries and India cannot be the sole exception. Indian industry has managed the transition from the very highly protected environment of 1991 to the much more open environment today fairly well, and there is every reason to believe that continued progress along these lines brings us to East Asian levels need not be disruptive provided it is appropriately phased, with supportive policies aimed at strengthening the competitive capability of Indian producers. It must be kept in mind that a policy of reducing tariff levels across the board need not have a damaging effect on domestic industry if it is accompanied by a parallel depreciation of the exchange rate which will boost the competitiveness of domestic industry with the additional advantage that it will be much more beneficial for exporters.

*iii) Infrastructure Development*

3.33 The state of infrastructure development is another major constraint on achieving rapid growth in both rural and urban areas and corrective policies in this area are absolutely essential if we want to achieve rapid growth of GDP and employment. Our rural areas lack basic economic and social infrastructure for agricultural and other rural development. This includes a well functioning system for irrigation and water management, rural roads to provide basic connectivity, a reliable extension service to disseminate best agricultural practices, adequate and reliable supply of electric power and basic social infrastructure in health and education. Industry is also severely constrained by lack of reliable and reasonably priced electric power and good quality transportation services (both road and rail). Telecommunications services have improved in metropolitan areas, but are still far behind levels prevailing in our competitor countries. Operational efficiencies in Indian ports are much lower than in our competitors and this is an important factor limiting the potential global competitiveness of Indian producers. Urban

infrastructure services such as drinking water supply, sewerage and municipal cleaning are also under severe strain, which not only affects the welfare of our expanding urban population but is also a constraint on efforts to make India an attractive destination for foreign investment and also for tourism, both of which are important for employment.

3.34 A comprehensive analysis of the policies needed to set infrastructure development on the right track is outside the scope of our report but it is appropriate to highlight some of the critical policy issues relevant for infrastructure development which must be resolved if we are to achieve GDP growth of 8% or more in the next ten years. The first issue is the relative role of public vs. private investment in infrastructure development. Infrastructure has traditionally been developed almost exclusively by the public sector, but today the public sector simply does not have the resources needed to make investments on the scale required to support high rates of growth. It is therefore necessary to attract private sector investment to promote infrastructure development wherever possible. The quality of infrastructure services has also become a major issue because of the compulsions of global competitiveness and improvements in quality are best assured by encouraging competition, which again suggests the need for private sector involvement.

3.35 While private investment is important, it cannot possibly replace public investment entirely in our situation. Policy towards infrastructure development must therefore be formulated on the assumption that a very large part of the responsibility will continue to remain in the public sector. This is certainly true of infrastructure development in rural areas e.g. irrigation, land development, rural roads, rural schools and primary health centre. There is room for community participation in the design of programmes in these areas and in their maintenance, but the finances for investment will have to come from the government. It is also true of some other sectors where private sector investment is possible in principle, but the scale of investment in practice is likely to be limited e.g. development of national and state highways and also railways. If public investment is essential, it is important to ensure that adequate resources are available in the public sector for this purpose and this depends upon implementation of the various measures for fiscal correction listed above. The need to raise user charges in critical areas such as power, irrigation, urban municipal services etc. where user charges are feasible is particularly relevant in this context. However, in several areas of rural infrastructure (schools, health care centres and even certain type of land development) user charges are not feasible and

**Table 3.8**

**Weighted Average Import Duty Rates in India**

	Agriculture	Mining	Consumer Goods	Intermediate Goods	Capital Goods	All Commodities
1991-92	47.0	56.9	97.8	69.5	94.8	72.5
1992-93	22.8	32.6	83.2	62.6	85.2	60.6
1993-94	19.8	33.4	68.7	47.6	58.4	46.8
1994-95	16.8	30.3	55.9	38.4	45.5	38.2
1995-96	16.7	29.9	36.1	22.9	29.1	25.9
1996-7	14.7	22.0	39.0	21.9	28.8	24.6
1997-98	14.0	21.9	33.8	46.1	25.1	25.4
1998-99	24.2	19.9	37.9	31.1	29.4	29.2
1999-00	24.4	21.4	37.4	33.1	31.0	31.4
2000-01	58.6	16.1	56.2	36.2	34.4	35.7
2001-02	57.7	15.8	67.1	34.8	31.8	35.1

Source: Planning Commission Estimates

these investments have to be funded from the budget. This in turn depends upon achieving an improvement in the general fiscal position of state government.

3.36 There is considerable potential for private investment in sectors such as power, telecommunications, ports etc., but it is important to recognise that private investment will not flow simply because a sector is opened for private investment. Experience in the power sector exemplifies the situation. Private investment in power was initially invited into the generation segment, but since the new power plants were expected to sell power to State Electricity Boards (SEBs) investors perceived serious risks of non-payment because of the poor financial condition of the SEBs. Investors therefore sought various types of risk mitigation through government counter guarantees, escrow arrangements etc., not of which have worked well. The net result is that although a large number of MOUs were signed initially, implementation has been very poor. Nor can much progress be expected until the root cause of the financial unviability of SEBs is tackled. This involves reforms in two critical areas. First, it is necessary to move away from the present system of heavy cross-subsidization in which tariffs are very low for some users (mainly agriculture and domestic households) with very high tariffs for industry. Second, it is necessary to reduce and reducing operational inefficiencies, especially the large transmission and distribution losses, most of which represent theft of power. Privatisation of the distribution segment would help to improve efficiency in this area and is urgently needed. Reforms along these lines are long overdue and will help to improve the viability of the public sector system, increasing its ability to invest, while simultaneously also making it possible to attract private investment to supplement the public sector effort.

3.37 Similar problems have arisen in telecommunications, where many private players have entered the field, but there are persistent complaints about the lack of a level playing field. The government has taken a number of steps in recent years to sort out problems as they have arisen, but this is an area where technology is changing so rapidly that new regulatory challenges are bound to arise. Government policy will have to be flexible to anticipate technology changes and to create a regulatory environment which is seen to be fair to both producers and consumers.

*iv) Finance and Banking*

3.38 The health and efficiency of the financial system plays an extremely an important role in financing development and ensuring efficiency of resource allocation, and this is especially so in a situation where the relative role of private investment is expected to increase. The development of a strong financial sector, encompassing both commercial banking and the capital markets is therefore a critical pre-condition for achieving rapid growth. A number of initiatives have been taken in this area over the past

several years and they have definitely improved the situation in many ways, but the process of reforms is far from over.

3.39 Reforms in the banking sector were initiated as early as 1992, when the government began to implement some of the recommendations of the Narasimham Committee. Since then, considerable progress has been made in upgrading prudential norms and standards bringing closer to international levels, and strengthening the supervisory system. Nevertheless, there is still considerable scope for improving the efficiency of the banking system and these improvements are essential if we are to achieve GDP growth rates of 8% and more.

3.40 The cost of credit from the banking system is still quite high with real interest rates varying between 6% and 10%. Much of this is not due to the inefficiency of intermediation but because of the high rates which banks have to pay for mobilizing deposits, which in turn reflect the pressure on domestic interest rates arising from the high fiscal deficit. This can only be remedied by reducing the fiscal deficit and the various measures mentioned earlier in this chapter, if implemented in practice, would go along way to meeting this objective. However, high deposit rates are not the only problem. Indian commercial banks also display inefficiencies in intermediation reflected in the interest spread of 2.7 percentage points in the banking system, which is much higher than the international norm of around 1 percent. These high spreads reflect the need to make provisions for the high volume of non-performing assets generated by the system and also to cover high operating costs arising from extensive overstaffing and the existence of an over-extended branch network, with far too many loss making branches.

3.41 Apart from cost related inefficiencies, the banking system also suffers from poor quality of service which limits the competitive strength of the economy. Delays in clearing cheques and effecting payments are common, though with the gradual induction of information technology in the public sector banks, the situation is expected to improve. A more serious problem is that credit decisions in public sector banks are often delayed and the decision itself is typically driven by a culture which accords primacy to following procedures with multiple layers of approval. This greatly reduces flexibility of decision making and the net result is that many worthwhile ventures are denied access to credit or do not receive credit in time.

3.42 One of the causes of inefficiency in the banking system is the persistence of directed lending in the shape of priority sector lending requirements. The desire to ensure that credit reaches critical sectors such as agriculture and the small-scale sector is entirely understandable. It is a means of extending much-needed institutional support to sectors that are potentially important for both growth and employment but not otherwise adequately linked to the financial system. However the obligation to lend to the priority

sector has created a culture of mechanical lending in public sector banks in which there is little effort at credit appraisal in priority sector lending, leading to a higher proportion of non-performing assets for priority sector advances than for non-priority sector advances. The Narasimham Committee had suggested a drastic reduction in the share of priority sector lending limiting it to a more precisely defined target group but this recommendation was not accepted. If the priority sector obligation is to continue, it is essential to ensure that credit appraisal is not compromised so that priority sector lending does not lead to high non-performing loans. The current practice of limiting the interest rate on loans below Rs.2 lakhs to the prime lending rate could be reconsidered. Small loans are inherently more costly for banks and there is ample evidence that for the borrower, what matters is the timeliness of availability of credit rather than the rate of interest especially since the interest paid by priority sector borrowers to money lenders is very high.

3.43 Competition among all categories of banks, including public sector banks, Indian private sector banks and foreign banks should lead to an improvement in the quality of banking sector services and this competition needs to be encouraged by following suitably liberal bank licensing policies which will allow qualified private banks (Indian and foreign) to expand their presence. Needless to say, competition should be accompanied by strict regulation which will ensure that banks observe minimum prudential standards. Banks that fail to meet these standards should be suitably penalized, and in any case restrained from expanding commercial advances, thus encouraging the more efficient banks to expand and prosper.

3.44 An aspect of the banking systems that deserves particular attention is the difficulty in present circumstances of obtaining bank credit for service sector activities. Traditionally, banks have concentrated on financing working capital for a manufacturing enterprises and banks are familiar with the needs of such units. However, as pointed out earlier in this chapter, the services sector is critical for employment generation and is expected to provide 70% employment over the next ten years. Indian banks are not well geared to meeting the credit needs of service sector units and this lacuna needs to be corrected.

3.45 The capital market is an important element of the financial systems and an efficient capital market can help lubricate the growth process. A well functioning capital market provides a means for individual savers to participate in the benefit of equity ownership with a high degree of liquidity, it allows dynamic companies to raise resources for expansion in the form of both debt and equity and it also provides mechanisms for take-over of companies by those willing to offer shareholders a better deal. All these functions are important in a situation where the objective of policy is to achieve a transition to more rapid growth. Considerable progress has been made in establishing a

regulatory framework for the capital market and in introducing modern methods of trading or settlement. Nevertheless, the functioning of the capital market in recent years suggests that there has been some loss of confidence on the part of investors and the market has not been as effective as expected in channelling funds to productive investment. A high level review of policies for the capital markets on the lines of the review conducted by the Narasimham Committee for banking is desirable

v) *Credit For the Informal Sector*

3.46 A major problem in all developing countries is that the formal banking system is ill-suited to meeting the credit needs of the informal sector and yet this sector accounts for the bulk of the total employment generated. We have noted earlier that it must be an objective of employment policy to increase the relative size of the organised sector in total employment, but there are limits to the pace at which this can take place and the informal sector is therefore likely to remain a major source of employment and also growth of employment in future. Special efforts must therefore be made to ensure that the financing needs of this sector are adequately met so that it can expand at a rate commensurate with the growth of GDP being projected.

3.47 This calls for initiatives on several fronts. First, the banking system itself must be encouraged to reach out to enterprises in the informal sector through innovative means. This is effectively what is intended by the various targets specified for priority sector lending by commercial banks. However, priority sector lending has its own problems as noted earlier. The effectiveness of bank lending to the informal sector must be greatly increased. Banking practices and procedures need to be reviewed to enable banks to adopt a more pro-active approach to lending for economically viable activities in the informal sector. The cooperative credit structure can play a major role in extending credit to the informal sector but it has become very weak in most States. There is an urgent need to strengthen the cooperative system. This calls for legislative changes which would free cooperatives from what at present is pervasive government control.

3.48 A great deal of informal sector activity can be more effectively serviced by non-bank financing intermediaries which are perhaps better able to handle such intermediations, charging interest rates which cover the high cost of managing an informal sector loan which is inherently more risky. They are also able to enforce claims on collateral. It is necessary to review the regulatory constraints on commercial banks which may prevent them from lending to such non-bank financial intermediaries for on-lending to finance informal sector activity.

3.49 Another important mechanism through which banks can meet the credit needs of the informal sector is by announcing self help groups (SHGs) which provide micro-credit for informal sector activities. A pilot project linking SHGs to banks was launched in

1992. It was envisaged that NGOs could help build up capacity among the poor to organize themselves into SHGs and approach the banks for financing. In 1992-93, a total of 255 SHGs were linked with banks under this project. The number had expanded to 1,21,744 as on September 30, 2000. The programme has provided credit to 1.9 million poor families. More than 85 percent of the SHGs are exclusively women's groups.

3.50 The experience thus far has been very encouraging. Recovery rates of SHGs are very high (over 90 percent) reflecting the impact of peer pressure in ensuring loan recovery. Impact studies of micro credit extended by SHGs show very positive outcomes in terms of the effectiveness of the loans in reaching the poor and in improving their income levels<sup>3</sup>. An important aspect of the programme is that it envisages a process of graduation whereby families can begin to finance informal sector activity through macro-credit extended by SHGs but can, in due course, access larger amounts of loans directly from the banks in due course.

3.51 The Reserve Bank of India has taken a number of steps to encourage bank lending to SHGs as a part of mainstream banking activity. Credit extended by commercial banks to SHGs is treated as part of priority sector lending in order to encourage banks to engage in the type of activity. Banks have also been given considerable flexibility to determine procedures and design loan products for SHGs responding to local conditions. A Micro-Finance Development Fund has also been established in NABARD to give training to SHG members, partner NGOs, banks and government agencies, provide start up funds to micro-finance institutions and meet their initial operating deficits and meet the cost of formation and nurturing of SHGs. We would strongly recommend that the programme of providing credit to SHGs, which has made a very good start, is a potentially important mechanism for expanding credit to the informal sector and should be greatly expanded in the year ahead.

3.52 To summarize, it is necessary to act on a wide front to bring about rapid growth of GDP, which in our view will be the most important factor in generating a high growth. The policy initiatives needed to achieve this objective are not usually emphasised in discussions on employment policy, but they are in fact critical to achieving any significant improvement in the employment situation in the next ten years.

3.53 An aspect of particular importance in the future is that employment generation in future, especially of high quality jobs, cannot be as dependent as it has been in the past, on the growth of public sector employment. Employment policy must recognise that the objective of government cannot be to create jobs directly, but to facilitate the growth of employment opportunities by promoting GDP growth. The bulk of the new employment

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<sup>3</sup>See "Micro Finance for Rural People—An Impact Evaluation" by V. Puhazhendi and K.J.S. Satyasai, NABARD, Mumbai (2000)

opportunities will necessarily be created in the private sector. Inevitably, they will consist of a combination of self-employment and wage employment. Agriculture will constitute only a small amount to the generation of new employment. The bulk of the new employment opportunities will be in the services sector and a large part of these will be in the informal sector.

## CHAPTER 4

### **SECTORAL POLICIES FOR EMPLOYMENT PROMOTION**

The macro-economic policies for accelerating growth outlined in the previous chapter need to be supported by sector specific policies aimed at stimulating efficiency and economic restructuring in individual sectors which will help achieve the overall growth objective. Sector specific policies are particularly important in case of sectors that are inherently more labour using since growth in these sectors can be expected to generate new employment opportunities or improve the quality of a large volume of existing employment. In this chapter, we focus on some of the sectoral policy issues which are most important from this perspective.

#### **1. Agriculture and Allied Activities**

4.2 Agriculture accounts for just under 60 % of total employment and what happens in this sector is therefore extremely important for the employment situation in the economy. However, it is important to recognise that this is not a sector where we should be planning for a large increase in total employment. On the contrary, agriculture has traditionally served as a residual employer, and is therefore characterised by considerable underemployment with seasonal variation in employment and relatively low real wages. Our longer term employment strategy should therefore aim at absorbing as much of the expansion in the labour force as possible in the non-agricultural sector, thus reducing the pressure of labour on land and thereby tightening the labour market, so that incomes per head in farming and real wages of agricultural labour rise significantly.

4.3 This is reflected in the growth scenarios in Chapter 3 which project GDP in agriculture to grow by 4.2% in the high growth scenario (8% GDP growth) and 4.8% in the rapid growth scenario (9% GDP growth), but since the elasticity of employment is only 0.1, the growth in agricultural employment is only 0.42 to 0.48 % per year. The resulting productivity growth of 3.5 to 4 % per year should help to improve the quality of employment in agriculture through faster growth in real wages of agricultural labour and in incomes per head of the self-employed. However, the desired level of growth in agricultural output and labour productivity will only take place if a number of policy issues in this sector are successfully addressed and market based incentives are created to facilitate greater capital, credit and technology flow. These are discussed below.

i) *Public Investment in Agriculture*

4.4 Agricultural GDP has been growing at around 3.3% per year in the 1990s and the projected acceleration to between 4.2 to 4.8 % per year will definitely require higher levels of investment in this sector. While much of the investment needed will be private on farm investment, the role of public investment in agriculture (including especially irrigation) is extremely important. Unfortunately, public investment in agriculture has been declining in real terms in the 1980s and most of the 1990s<sup>4</sup>, though there has been some increase in the last three years. Private investment in agriculture has been rising but the trend is offset by decline in public investment so that total investment in agriculture has increased at only a modest rate. Accelerated growth in agriculture in future will require a substantial increase in public investment in agriculture related infrastructure such as irrigation and drainage, land development, water conservation, development of rural road connectivity etc. Such investments are especially needed in the poorer, low rainfall areas of the country, which must now play a larger role in achieving rapid agricultural growth since productivity levels in green revolution areas appear to have plateaued.

4.5 Public investment in agriculture is the responsibility of state governments and is therefore severely constrained by the fiscal problems of state governments. Resolution of these problems along the lines indicated in Chapter 3 is therefore critical for accelerating agricultural growth. It is important to note that although some of the solutions lie in a general improvement in fiscal performance, there is also room for restructuring the existing allocation of resources to agriculture by reducing implicit subsidies in this area and utilizing the savings thus achieved to increase public investment. For example, undercharging farmers for power and for irrigation is ostensibly designed to benefit farmers, but in practice it only leads to the power and irrigation systems being starved of resources. The net result is poor maintenance of existing assets and an inability to invest to expand the system, both of which reduce agricultural productivity.

4.6 The price distortions introduced by some of the present subsidies also have damaging effects. Low irrigation charges and power tariffs lead to excessive use of water, with harmful effects on soil fertility. The excessive subsidization of nitrogen compared with potash and phosphates leads to excessive use of urea. It can also be argued that the subsidy on urea is improving irrigation and pursuing watershed development would be much more beneficial for agricultural production and would promote the employment objective.

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<sup>4</sup> This assessment of trends in public investment in agriculture may need to be modified if we take account of the fact that investment in agriculture in national accounts include investment in the form of irrigation but does not include investment in rural roads or development of markets, which are extremely important for agricultural production. It is possible that if these investments are included the decline in total investment may be less than it appears otherwise

4.7 The lack of resources to finance investment is not however the only constraint in this area. Equally serious is the problem of inefficiency in the use of available resources. The tendency to start new irrigation projects when existing projects are underfunded, leads to a thin spread of available resources, with consequent loss of efficiency. Better prioritization of expenditure to focus on completing ongoing projects is urgently needed.

4.8 Poor design of public investment in rural areas is also a serious problem. Many rural development programmes are of a “top down” variety, with little participation by the beneficiaries. The effectiveness of public investments in rural areas in improving productivity can be greatly increased if there is effective participation which requires genuine decentralisation and empowerment of panchayats and zila parishads. There has been some attempt at such decentralization in many States but the situation on the ground varies considerably and there are serious deficiencies in most States. It must be emphasised that these are the areas which fall in the purview of State Governments. Much depends upon the political commitment at the top to bring about these changes which are bound to be resisted by vested interests.

*ii) Private Investment in Agriculture*

4.9 Private investment in agricultural at present consists mainly of on farm investment by the farming community itself. The flow of corporate and institutional investment into this sector which is needed now for next stage of agricultural transformation is negligible. It is necessary to encourage the private corporate sector to invest in agriculture and related activities by facilitating the creation of organised and corporatised entities like Integrated Agricultural Complexes and Food Parks that would attract commercial investments. Innovative policies are needed to facilitate large scale investment into the area of agricultural infrastructure, including irrigation by way of public private partnership.

*iii) Controls on Agriculture*

4.10 One of the factors holding back agricultural growth at present is the failure to extend the benefits of decontrol to the agricultural sector. Liberalisation has had beneficial effects in industry but it has bypassed agriculture which continues to suffer from innumerable controls which hamper realization of potential efficiency. We would recommend the following initiatives to remove existing controls which throttle agricultural development.

- a. The *Essential Commodities Act* is a Central Legislation which provides an umbrella under which States are enabled to impose all kinds of restrictions on storage, transport and processing of agricultural produce. These controls have been traditionally justified

on the grounds that they are necessary to control hoarding and other types of speculative activity, but the fact is that they do not work in times of genuine scarcity and they are not needed in normal times. Besides, they are typically misused by the lower levels of the administration and become an instrument for harassment and corruption. At a time when European countries have integrated their national markets and regard the resulting large European market as a feature which strengthens their position globally, it is an anomaly that we have laws that actually prevent the development of an integrated national market for agricultural products. After full consideration of this issue, we are of the view that the Essential Commodities Act should be repealed.

- b. Repeal of Central legislation may not suffice as States can introduce controls under State laws. In the interest of creating an integrated national market for agricultural produce, there should be a central legislation that would actually ban imposition of any restrictions on the movement, stocking or forward trading in agricultural commodities. The Ministry of Agriculture in the Central Government, in collaboration with the Planning Commission, should undertake a systematic review of State laws and control orders which impose harmful controls on agriculture and actively seek their repeal. Vested interests and inertia will resist such a move, but we feel that it is an essential step for extending the benefits of economic reforms to agriculture.
- c. Forward trading in agricultural products should be allowed in a systematic manner with suitable regulation. The introduction of forward markets would help farmers obtain price information and would allow hedging of price risks.
- d. The marketing of agricultural produce, especially fruits and vegetables is governed by laws that stifle the development of agriculture. The existing laws require that wholesalers must purchase agricultural produce only in regulated mandis controlled by the Agricultural Produce Marketing Committee (APMC). Since most farmers are small farmers, they cannot directly bring vegetables and fruits to the mandis. They typically sell their produce to village commission agents who collect produce on behalf of the market commission agent who sells to wholesalers in the mandi. Although sale in the mandi is supposed to be by open auction to ensure fair pricing, in practice the price is determined in highly non-transparent manner by negotiations between market commission agents and wholesalers. Lack of transparency is perpetuated by the fact that produce is not graded before it is sold. The prices arrived at in this fashion are declared as the mandi price and the farmer receives the residual price after the commission of the village commission agent and the market commission agent is deducted from the declared market price. Not only is the price determination non-transparent, the large number of middlemen, each of whom charges a commission,

squeezes the realization of the farmer so that the gap between the farm-gate price and the retail price paid by the consumer is very large. Although originally designed to protect farmers' interests by creating regulated markets, the system has actually created a monopoly situation in which a small group of traders and agents are able to extract huge benefits. It is absolutely essential to liberalise the existing laws and allow competing markets to be set up. The Government of Karnataka has amended the Agricultural Produce Marketing Act by ordinance to allow National Dairy Development Board (NDDB) to set up a modern fruits and vegetable market in Bangalore. This is a welcome development. We would recommend full decontrol so that any group of persons should be allowed to set up modern marketing infrastructure to facilitate marketing of agricultural produce subject to paying the normal mandi tax. The establishment of competing market will help farmers.

- e. In order to improve the transparency in the operation of APMCs, these Committees should publish on the internet in real time, the daily arrivals, maximum and minimum prices as well as balance of stocks available. This will be a first step towards building on integrated national market for agricultural products.
- f. Another control instrument which operates against the farmer is the reservation of certain agricultural implements for production by small scale industry. Six of these items were dereserved in 1999 but several other items remain reserved such as cultivators, disc harrows, insecticide dusters (manual), forks, hoses, seed treaters, hand shovels, water lifters, sickles and other agricultural implements. Many of these items can be produced efficiently by SSI units serving local markets and will continue to be produced by them. However, it is surely in the interest of the farmer to allow larger scale units to try to produce superior types of agricultural implements and market them in rural areas. It is illogical to regard agriculture as a priority sector and assert primacy of the objective of improving the conditions of living of agricultural workers, but to deny this sector the best implements which could be produced in India.
- g. The time has come to review the entire gamut of policies governing procurement and distribution of foodgrains, including the role of the FCI. As we move away from the earlier years of a scarcity economy, we need to take initiatives to encourage the development of private traders who can compete freely with existing public sector entities such as FCI. It is impossible to develop modern private sector trading companies as long as the present system with movement restrictions, restrictions on stocks and lack of forward market continues. Our proposal in (i) above deals with this problem. It is also necessary to so away with the present preferential treatment of FCI in the matter of provision of transport and credit.

*iv) Liberalising Leasing of Land*

4.11 The progressive fragmentation of land holdings, leading to proliferation of very small holdings, poses serious problems in transiting to a high productivity agriculture. There is no doubt that much of agricultural technology is scale neutral and small holdings therefore can be highly productive but this is not necessarily the case for very small or marginal holdings. According to the 1990-91 agricultural census almost 60% of the operational holdings were less than 1 hectare and these accounted for 15% of the total area operated. Both percentages are likely to have increased since then because of the continued effect of fragmentation. As fragmentation of land continues in rural areas while real incomes in the rest of the economy increase, more and more of the very small holdings will become unviable in the sense that they will not be able generate sufficient levels of income to encourage the owners to cultivate them as owner cultivators.

4.12 It is therefore necessary to liberalise the present laws regarding the leasing of land to allow marginal land owners to lease out land to others to create operationally viable holdings. The legal position regarding leasing varies across states, but at present many states e.g. Uttar Pradesh, Orissa, Bihar, Kerala, Telengana area of Andhra Pradesh, Himachal Pradesh, Karnataka restrict leasing. In other states, leasing leads to the acquisition of tenancy rights which effectively discourages leasing by small farmers. These restrictions are an impediment to the evolution of economically viable operational holdings. It is necessary to consider changes in the land laws which can free up the land market and facilitate the development of viable sized operational holdings.

4.13 We recognise that changing the leasing laws is a potentially sensitive issue because these laws are perceived as protecting the interest of small cultivators. However, with the growing commercialisation of Indian agriculture and other changes in the economy, some of the safeguards, which were thought necessary under very different conditions 50 years ago may no longer be relevant. There is now an urgent need to develop a well functioning land market if we are to move to the next level of productivity. Marginal farmers must be enabled to lease out very small holdings with no fear of alienation of land. This requires freeing up the restrictions on tenancy in a manner which would promote efficient agglomeration and development of commercial farming. Tenancy laws can also be relaxed in areas such as Western UP and coastal Andhra Pradesh. To protect the rights of farmer owners, recovery of land by the owner could be made legally unchallengeable. As a measure of abundant caution, these changes need not apply to specified areas, which may be classified as feudal or semi-feudal.

4.14 Another dimension along which the rural land market can be freed is with respect to degraded and wasteland, including desert land, saline land & ravines. There are 24 million hectares of land characterised as cultivable wasteland and permanent fallows.

Commercial leasing of degraded and wasteland could help to exploit available resources better. Concern is sometimes expressed that such flexibility could be misused and that non-degraded forest land will be misclassified and then leased out. However, such problems could be addressed through careful delimitation. After detailed delimitation, genuine wasteland can be taken out of the purview of land ceiling and tenancy laws, and agro-companies allowed to buy, mortgage, develop, cultivate and sell this land. Commercial leasing can also create problems of environmental degradation as in the case of prawn farming in certain areas where land became highly saline. It would be necessary to protect the interests of lessors in such cases.

v) *Development of Non-Cereal Crops*

4.15 Faster growth in agriculture necessarily requires agricultural diversification away from cereals towards non-cereal crops such as vegetables and fruits and other allied activities such as floriculture, dairying, poultry etc. These activities are much more labour using than cereal agriculture and will therefore help to improve the employment situation. The critical constraint for development of such crops is the lack of marketing linkages and also the lack of development of food processing. As far as marketing is concerned, liberalization of restrictions under the Agricultural Produce Marketing Acts is essential. Private & co-operative organisations should be allowed by urban authorities to set up their own marketing yards in urban areas. This will help in breaking the monopolistic/oligopolistic supply structures for fruits and vegetables existing in some metros, introduce competition and benefit both consumers and farmers.

vi) *Agricultural Exports*

4.16 Export markets are a potentially important source of demand for Indian agriculture in future as Indian agriculture diversifies out of cereal production. The potential for agricultural exports has not been adequately exploited in the past and needs priority attention in future. This is especially so if the renewed WTO negotiations on agriculture succeed in opening markets for our products and controlling the very high trade distorting subsidies to agriculture in many industrialised countries. Agricultural exports are particularly important for employment generation since they are typically very labour using and a more rapid growth of agriculture or agriculture based exports would increase the demand for labour in the agricultural sector.

4.17 A major constraint on the development of a dynamic agricultural export sector is the uncertainty generated by frequent resort to export restrictions at the first sign of rising domestic prices. This stop-go approach to agricultural export has created an environment in which no one has an incentive to invest in building export markets for agricultural products and those that attempt to develop such markets can easily lose credibility and be classified as unreliable suppliers. Export restrictions when they are imposed may appear to

hurt only traders, but the ultimate burden is borne by farmers who are denied the benefit of steady access to world markets. We recommend that restrictions on export of wheat, rice, dal, cotton, oilseeds, etc. should be lifted and government should announce a policy that it will not resort to bans on exports of agricultural commodities even if there is a domestic shortage.

4.18 In times of shortage of exportable agricultural commodities, government policy should aim at enhancing domestic availability by allowing imports more freely rather than by banning exports. We recognise that pressure on domestic prices can also come from increase in world prices and in such a situation imports may not help in containing prices since import prices will be high. However, in such situations, agricultural exporters should not be denied the benefit of high world prices. If vulnerable groups of consumers are to be subsidised, we recommend that this should be done by providing subsidised supplies through the PDS and making provision for the subsidy in the budget. Furthermore, the quantities to be procured for such subsidized supply should not be obtained only by importing at a high price and subsidising the imported supplies for domestic consumers. They should be obtained competitively from the market, leaving it to suppliers to tender either from domestic sources or from imports.

## **2. Food Processing**

4.19 India is the second largest producer of fruits and vegetables in the world, but the food processing industry remains highly under-developed. Less than 2% of fruit and vegetable production is processed compared with 30% in Thailand, 70% in Brazil, 78% in the Philippines and 80% in Malaysia! The very low processing percentage means that wastage and spoilage in India is very high. Tapping the unutilised potential of food processing including fisheries and marine products, is an ideal way of bringing industry to rural areas, providing assured markets for farmers enabling them to diversify into higher value horticultural crops and expanding non-agricultural employment by creating new work opportunities in rural areas.

4.20 There are many reasons why food processing has not developed in India as it should have. Part of the explanation lies in the lack of assured electric power in rural areas and also high cost of power to industry. Poor road connectivity to urban markets is another important infrastructural constraint. These are areas where generalized improvements in infrastructure would help the development of non-agricultural activity in rural area in general and food processing in particular.

4.21 Government policy has also not focussed adequately on the role of the organised sector in the development of food processing. At present the food processing industry is dominated by small-scale producers, including traditional village industries, with a very small segment of large units including MNCs. The small scale sector is undoubtedly an

important segment of the economy and they deserve full support. However, this should not lead to neglect of the role of the corporate sector in developing a modern food processing industry. Food processing industry is not a simple matter of taking agricultural products currently grown by farmers and using them as raw material to produce a standard processed product. In fact it is necessary to restructure the food chain from production to consumption keeping in mind the special requirements of the processed food market.

4.22 Traditional varieties may not be suitable for processing because the particular requirements of the processed food market are different from food for direct home consumption., or because of the requirements of processing itself. For example, potatoes with high sugar content are not suitable for frying because they change colour. Tomatoes required for making tomato paste need a different solid content than tomatoes for direct consumption. Corporations or modern co-operative organisations are needed to manage the entire chain from farming to food processing to marketing. They have to develop institutionalized relationships with farmers providing them with seeds and other inputs for the varieties needed for the processed food industry along with extension services to overcome technical difficulties which may arise in growing these varieties. They must develop modern storage facilities at the processing stage and also develop methods of handling produce which minimize damage. The identification of varieties that meet the requirements of different markets is obviously crucial since consumer tastes vary across markets, including especially export markets. Standards of quality are also extremely important especially in accessing export markets, though this aspect will become increasingly important even domestically, as consumers become conscious of quality and hygiene standards.

4.23 Some of the important policy initiatives that are needed to help promote food processing are the following.

- a. Although government policy allows the entry of larger units including foreign investment into food processing, it is necessary to adopt a more pro-active attitude. Major national and international food processing companies should be approached to ascertain the nature of the problems which limit their activities and interest in India and consideration should be given to making changes in policy which would encourage expanded investment by these companies.
- b. Government should focus on R&D, information dissemination, extension & training and development of rural industrial estates (food parks). It should also create a policy environment, which supports both private sector and co-operative sector development of post-harvest preservation, quality testing & control labs, silos & warehouses, cold storage facilities, air-conditioned transport and agro-processing.

- c. A major impediment to the development of a modern food processing industry is the present legal framework which is characterized by a multiplicity of laws and regulations related to food processing which are administered by different ministries and which are often inconsistent with each other (see Box 1). These disparate laws should be integrated into a single Food Act, and a single Food Regulatory Authority should be set up to regulate all the health and safety aspects of food processing, handling etc.
- d. The Prevention of Food Adulteration Act, which is administered by the Ministry of Health and Family Welfare exemplifies the problem with existing legislation. The Act dates back to 1954 and is extremely restrictive in the category of permitted additives which do not reflect technological options which are now available and widely used internationally. Although changes are possible, the procedure for making changes is extremely complicated and the authorities concerned have shown little flexibility in these matters. The Act is also rigidly administered in the sense that any deviation from what is prescribed, even in the matter of the descriptive content of labels, is treated as an offence equivalent to adulteration which can invite criminal prosecution. There have been instances when smudged labels have been treated as mislabeling and made a basis of criminal prosecution. In one case a label indicated the weight in “kg.” whereas the prescribed form under the rule was “kg” and the mere addition of a dot at the end of “kg” was regarded as a material deviation from the prescribed rules! Such provisions clearly deter organized sector companies from expanding in this area while leaving the unorganized sector, which is not effectively policed at all, largely unaffected. We would recommend repeal of the Prevention of Food Adulteration Act and its replacement by a modern Act in line with prevailing international practice.
- e. The Central level and State level implementation agencies lack adequate manpower and training with the result that implementation is not uniform across states. There needs to be uniformity.
- f. The present taxation system constitutes a significant disincentive for food processing because the agricultural sector is not subjected to excise taxation and excise taxes are first applied at the food processing stage. Ideally, only the value added at each stage should be taxed. However, since agricultural products are not taxed, no credit can be given for excise paid on these inputs as would happen in a normal modvat chain. Sudden application of the tax rate at the stage of food processing clearly discourages moving up the value chain. The Budget for 2001-02 has exempted processed food based on fruits and vegetables from excise duties but this leaves other processed food e.g. cereal and dairy based foods unaffected. One way of

achieving a more rational tax structure would be by granting a notional excise set off on agricultural inputs. If that is not possible, then a lower rate of tax on the output is desirable.

### **3. Small-Scale Industry**

4.24 Small scale industry (SSI) is an important source of employment all over the world because small industries typically involve less use of capital per man than large industries. They also play an important incubator role by developing entrepreneurship. Issues related to the small scale sector have been examined in detail by a Study Group on Development of Small Enterprises which was set up by the Planning Commission. The Group submitted an interim report in July 2000 which was considered by a Group of Ministers and formed the basis for a Comprehensive Policy Package for the SSI sector announced in August 2000 by the Prime Minister. The final report of the Group has also been submitted in May 2001 and it makes a number of valuable suggestions, including especially the need to redefine small scale industries, improve fiscal incentives, provide easier access to credit, capital subsidy for technology upgradation and improved infrastructure.

4.25 We agree with the broad approach of the Study Group on the need to reformulate policy for the small scale sector to take account of new challenges and the changing economic environment. This calls for a radical shift in policy from protection to promotion. The relationship between SSIs and large industries must also be seen as a mutually supportive and not as inherently adversarial. In this report, we have limited ourselves to commenting on only few key issues.

#### *i) Strengthening Promotional Measures*

4.26 We strongly endorse the need for pro-active support for small-scale enterprises to counter the fact that they do not face a level playing field vis-à-vis large industries on account of innumerable market imperfections. It must be emphasised however that many of the problems affecting the small scale sector adversely are the direct result of major policy failures in critical areas which are not easily offset by actions outside those areas. For example, the crisis in the power sector has made power from the grid unduly overpriced for industry and also of uncertain quality. This is a general problem facing all industry but it hurts small-scale industry much more because, unlike larger industries, the SSI sector cannot set up captive generating plants. Even when some of the more modern SSI units are able to set up small captive generating sets, the cost of such captive power is generally much higher for SSI units than for large units because of economies of scale in

## **Box 1**

### **Multiplicity of Laws and Enforcement Agencies**

The following is a list of some of the major Acts and orders that govern food processing and the Ministries responsible for administration under the Acts. The multiplicity of Acts or Ministries creates contradictory definitions which make it difficult to comply with all requirements:

- ▶ Ministry of Agriculture
  - Insecticide Act
  - Milk & Milk Products Control Order - (MMPO), 1992
  - Meat Food Products Order, 1973.
  
- ▶ Ministry of Rural Development
  - Agricultural Produce (Grading & Marketing) Act, 1937
  
- ▶ Ministry of Health & Family Welfare
  - Prevention of Food Adulteration Act, 1954
  
- ▶ Ministry of Food Processing Industries
  - Fruits & Vegetables Products (Control) Order - FPO, 1955
  
- ▶ Ministry of Commerce
  - Export (Quality Control & Inspections) Act, 1963
  
- ▶ Ministry of Civil Supplies, Consumer Affairs & Public Distribution
  - Standards of Weights & Measures Act & Standards of Weights & Measures (Enforcement) Act.

power generation. Similarly, inflexibility in our labour laws (discussed in detail in Chapter 7) affects all units, but it has a more damaging effect upon small-scale units because they are generally more labour intensive and therefore the share of wage cost in total cost is higher. The high “transaction costs” involved in dealing with the bureaucracy and the banks, which is another major source of complaint, also involves economies of scale which give larger units an advantage.

4.27 Efforts to offset the impact of these disadvantages on the small scale sector by various sops and incentives are of limited use because these so called incentives are minor compared to the adverse impact of the disadvantages. The problems facing SSIs therefore have to be tackled at the root by implementing reforms in the power sector as discussed in Chapter 3, or addressing labour laws as discussed in Chapter 7. We wish to emphasise that the benefits of such reforms to the small sector will be proportionately much larger than for the large sector and progress of reforms in these areas may therefore be the most effective support that can be given to the small scale sector.

4.28 In addition to these measures, there are a number of SSI specific policy support measures which should be considered to effectively target three key concerns - credit, marketing and technological upgradation. The Study Group on Development of Small Scale Enterprises has dealt with many proposals in its interim and final report, and these deserve full consideration. In our view, the following measures are especially important:

- a. Globalisation of the Indian economy as well as the emergence of sunrise and knowledge based industries such as information technology, biotechnology, etc. have created a new industrial climate in which the traditional focus on small scale enterprises needs to be expanded into a composite policy focussing on small and medium enterprises which would also facilitate seamless growth of small to medium and ultimately even to large scale. The Study Group has recommended that tiny, small and medium establishments could be redefined in terms of investment limits of Rs.25 lakhs, Rs.5 crores and Rs.10 crores respectively. To reflect the new focus, the administrative ministry should be renamed the Ministry of Small & Medium Establishments. This is in our view the right approach and should be implemented expeditiously.
- b. At present, the focus of small-scale policy is on units engaged in industrial production to the exclusion of smaller units in the service sector. Small-scale enterprises in the non-industrial sector are eligible for support only upto an investment limit of Rs.10 lakhs in plant and machinery. This approach is not conducive to employment objective since the bulk of growth in employment opportunities in future are expected to come from the services sector. We therefore recommend that support measures, including especially support from the banking

system and institutional finance designed for the small industrial sector should be extended to cover small and medium establishments (SMEs) irrespective of whether they are engaged in industry or services. The benefits currently given to SSI should be extended to SMEs in the service sector even though investment in these units exceeds Rs.10 lakhs.

- c. International experience suggests that SSEs flourish in situations where they can be clustered together in an area where it is then easier to develop common infrastructure facilities of high quality and where technical assistance, market assistance and other market information, credit institutions and also skilled labour are all available as a package. Many such clusters have already emerged in the country but at present we do not have any policy for providing special assistance for the development and upgradation of such clusters. The Abid Hussain Committee had recommended that the State governments should identify existing SSE clusters and promote types of organisations which are joint ventures between the State government or local authority and business associations in these clusters. We would recommend that the Central Government should provide additional resources for such programme through a special Centrally Sponsored Scheme aimed at upgrading infrastructure in areas where well defined industry clusters have already emerged in individual States with a sufficient agglomeration of SSI units. The aim should be not so much to create facilities that would attract new industries, as has been the case with industrial estates in the past, but to upgrade facilities and services in areas where industrial clusters have already developed with a view to making them more competitive and capable of withstanding competition in the emerging globalised environment. This assistance should be provided for infrastructure development provided a policy framework and institutional structure is in place which ensures that the upgraded infrastructure will be properly maintained. The facilities provided in these clusters would have to be tailored to the sector specific character of each cluster.
- d. A major problem affecting small scale units is the burden imposed by inspection by a large number of different agencies, mostly of State Governments responsible for the implementation of different laws and regulations. The power given to the inspectors and the lack of transparency in their operations gives them extensive opportunities for arbitrary decision making with attendant harassment and corruption. As pointed out above, this problem affects large industries also but there are “economies of scale” in this area, which means that larger units by contrast are able to handle these problems with much greater ease, often devoting specialized personnel to deal with regulatory inter-phase, something which small units obviously cannot do. State Governments must take concerted steps to reduce

the burden of inspector raj on small-scale enterprises. Announcements to this effect are frequently made but the impression on the ground is that there has been little improvement. The system is deliberately used to harass business in order to extract illegal payment and this continues despite periodic administrative efforts at simplification. State Governments need to interact closely with SSI units and organizations to evolve working arrangements and procedures that will carry credibility.

*ii) Reservation for Small Scale Industry*

4.29 The policy of reserving certain items for production only in the small scale sector is a unique feature of India's policy. At present almost 800 items are so reserved which means that they can only be produced in units where the total investment in plant and equipment does not exceed Rs.1 crore. The limit was Rs.60 lakhs earlier and was raised to Rs.3 crores in 1997 but was lowered again to Rs.1 crore in 2000 on representations from the industry.

4.30 The rationale of the policy of SSI reservation was extensively studied by the Expert Committee on Small Enterprises (the Abid Hussain Committee) which submitted its report in 1997. The Committee listed the following arguments against reservation which are worth recalling.

- a. The policy has not actually helped the growth of small scale industry because SSI units in the unreserved sectors have actually grown faster than SSI in the reserved sector. In other words, SSI units have shown more dynamism in areas where they compete with larger units.
- b. Reservation in many areas seems to have been irrelevant since a number of the reserved products are not produced at all or are produced by only one unit.
- c. Reservation is inconsistent with the evolving trade policy which allows a large number of the items reserved for SSI production to be freely imported under OGL or under special import licenses, though with payment of duty.
- d. Reservation has hurt our ability to expand exports in many critical areas e.g. textiles and leather because we are unable to supply large volumes of the right quality and within the required delivery time. This problem will be compounded when the MFA is abolished and we lose quota-based access.

The Abid Hussain Committee considered point (iv) above to be particularly important and recommended that SSI reservation should be abolished.

4.31 The issue of reservation was considered again by the Study Group on Development of Small Scale Enterprises. The Group came to the conclusion that "in spite

of the present scenario of economic liberalisation and WTO regime the policy of reservation should continue. However, the position could be reviewed periodically to take stock of the changing economic scenario.” Our assessment is somewhat different. We feel that it would be counterproductive to delay action in this area. It is now generally recognised that the policy of imposing a limit on investment in areas which have export potential has prevented India from exploiting world markets in many areas. China’s dramatic success in exporting relatively simple products such as standardised garments, shoes, toys, etc. achieving export levels that are 40 to 80 times higher than India is well known. One major reason for China’s success is that they are able to engage in large-scale production and achieve levels of quality and technology which is not possible with constraints on investment. The consequence has been a tremendous growth in income and employment in China. India could have reaped similar benefits if Indian producers had been allowed to produce on a competitive scale and received the support to achieve export orientation.

4.32 The recent dereservation of the garments sector and the announcement in the Budget that another 14 items, including leather goods and toys will be dereserved are important steps in the right direction. However, we would emphasise that the case for dereservation cannot be limited only to areas where we have strong export potential. It is also necessary to dereserve in other areas because the opening up to imports has made continuation of reservation an unsustainable option. With the lifting of quantitative restrictions (QRs) on imports on 1<sup>st</sup> April 2001, a large number of consumer items which are currently reserved products have become freely importable, subject only to tariffs. While tariff rates for many of these items, especially consumer goods, are relatively high, it has also been announced that within 3 years we will move to a peak tariff level of 20%. This means that imports produced abroad in economic scale units will be able to compete with Indian SSI producers in the domestic market with relatively modest tariff protection, but Indian producers will not be allowed to increase investment beyond the specified SSI ceiling level in order to become more competitive. With preferential access allowed for some SAARC countries, (eg. Sri Lanka and Nepal) producers located in these countries will be able to access our markets with zero or low tariffs. Continuing with reservation in this environment is completely illogical. It will only tempt Indian entrepreneurs to set up production facilities in neighbouring countries and import products from these locations rather than produce and generate employment at home, a trend that is already in evidence.

4.33 The Study Group on Small Scale Enterprises has suggested raising the investment limit for SSE in export related and hi-tech areas to Rs.5 crores. We agree that this would provide a significant degree of flexibility to existing SSI units to upgrade their capacity and increase efficiency in designated areas. However, it is necessary to go

further and phase out SSI reservation completely over a defined period. We therefore recommend as follows.

- a. All items where there is an export potential should be identified and dereserved immediately, on the lines already announced for garments, leather goods etc. The list should include those items where actual exports at present may be low but which are potentially high export earners.
- b. For all other items, the existing reserved items should be classified into two Groups. The investment limit in the first group should be raised immediately to Rs.3 crores and in the second group to Rs.5 crores. All items initially placed in Group 2 with the Rs. 5 crore limit should be fully dereserved at the end of two years. Those in Group 1 should be moved to group two with the higher investment ceiling at the end of 2 years and then dereserved in the next two years. If this phasing is accepted, SSI reservation can be ended by 2005. The proposed enhancement of the investment ceiling and phasing out of dereservation gives existing units an opportunity to expand their capacity and upgrade technology to reach economies of scale, while preventing large scale units from moving in immediately, as they could if dereservation is implemented at one go. The grouping of items into two groups may be done by the administrative ministry in consultation with the stakeholders.
- c. The existing foreign investment limit of 24% in small scale industry should be reviewed. Higher limits should be permitted if the entrepreneur wishes, as a means of upgrading technological capacity and getting marketing linkages.

4.34 Small scale reservation is a sensitive area, and there may be hesitation in taking bold steps because of the fear that this would hurt a large number of existing units. We would emphasise that dismantling of reservation in a phased manner as proposed above will not lead to a wholesale destruction of SSI. On the contrary, it will strengthen the small industry sector by allowing many existing SSIs to expand investment to reach critical minimum size. It must be kept in mind that many existing units have proliferated horizontally by creating multiple units solely in order to avoid the investment ceiling restriction. These units will consolidate to increase their efficiency. There may also be mergers and joint ventures between existing SSI units and some of the larger domestic units interested in entering these areas to produce a more economically rational industrial sector. Such developments may not lead to a reduction in total employment. Foreign investment could help to expand many of these units to a credible scale, thus enabling domestic SSI producers to acquire technical and management tie-ups.

4.35 We recognise that as restructuring takes place, the number of small-scale units may indeed be reduced and some of the weaker units displaced by others which will expand as a result of enhanced competitiveness. This is a normal process of structural

evolution and is consistent with strengthening the sector as a whole. Fears that it will lead to a reduction in output or employment from the sector as a whole may not be valid since restructuring may permit deeper penetration of world markets which would generate a larger volume of employment and higher quality of employment than is the case at present. As pointed out earlier, the remarkable success of China in developing exports of labour intensive manufacturers is a pointer to what is possible in this context. Of course, small scale reservation is not the only constraint holding back exports of labour intensive manufacturers. Infrastructure constraints and outdated labour laws are also important and these are addressed in chapters 3 and 7 respectively.

#### **4. Employment in the Services Sectors**

4.36 In developed countries, the services sector is growing faster than manufacturing and is the dominant source of high quality employment. Our situation is different because GDP in manufacturing can still be expected to grow faster than services for sometime. However, this does not mean a correspondingly faster growth in employment in the manufacturing sector. Many manufacturing units in India suffer from serious over-manning and the compulsions of competition will force them to trim the labour force to cut costs with the result that growth in employment in the manufacturing sector may be much slower than the growth in value added. As pointed out in Chapter 3, 70 % of the growth in employment opportunities generated over the next ten years will be in the services sector.

4.37 Services in India cover a very wide spectrum. There are formal sector services at one end, such as banking, communications, insurance, certain categories of transport, print and electronic media, high income hotels and restaurants, education and health, all of which generate high quality work opportunities. There are also traditional consumer services such as retail shops, low income restaurants, hair cutting saloons, tailoring, photographers, taxis and small truckers, etc where most of the establishments are small in terms of a formal or recorded employment size; declared employment being no more than one or two including the proprietor. Many of these services can in principle be provided by more organised establishments and over time the role of the organized sector will and should increase. This will imply some shift away from self-employment in very small establishments towards regular employment in more formal sector establishments. It will also imply an increase in the quality of wage employment which at present is often very low.

4.38 Some of the sector policy issues which constrain growth of services in critical sectors where faster growth could lead to a faster growth in employment and an improvement in the quality of employment are discussed below.

*i) Travel and Tourism*

4.39 Travel and tourism is one of the fastest growing industries in the world and accounts for 10.6% of the world's employment. India has enormous potential for both domestic and international tourism but this potential, especially for international tourism, is largely unexploited. According to the World Tourism Organisation India stands 43<sup>rd</sup> in the list of tourist destinations worldwide, with a total of only 2.2 million tourist arrivals. This is ridiculously low compared with 23 million tourists in China. While this comparison may be vitiated by the fact that it includes visitors from Hong Kong, even if these visitors are excluded, the Chinese figure is as high as 12 million, which is almost six times the Indian figure. Other developing countries ahead of India include Turkey (8.0 million), Thailand (7.2 million), Malaysia (7.1 million), Singapore (6.6 million), Indonesia (5.0 million), South Africa (4.9 million).

4.40 Larger volumes of international tourism could contribute a substantial expansion in productive employment opportunities in the years ahead. However, this calls for dramatic action on several fronts most of which are outside the tourism sector narrowly defined. A major factor limiting India's attractiveness as an international tourist destination is the poor quality of infrastructure. It is difficult to attract high spending foreign tourists if the quality of airports, airlines, railways, roads and tourist buses available for travel within the country are much below the standard of other competing tourist destinations, including even developing countries. The deficiencies in these areas reflect the general inadequacy of investment in infrastructure which needs to be corrected in any case to support rapid economic growth. As this process proceeds, it will also help to achieve faster growth of the tourism industry. However, the process of upgrading infrastructure should be accelerated, especially in critical areas which have a high tourism potential.

4.41 The following policy initiatives are especially important from the point of view of developing tourism.

- a. Investment in tourism development often gets very thinly spread over a large number of activities. It is important to adopt a much more targeted approach. Development of each tourism circuit needs to be taken up as a specific investment proposal based on potential foreign exchange earnings. The emphasis should be on total development of that circuit as opposed piecemeal development in a number of circuits at the same time. Total development should encompass the entire gamut ranging from the look and feel of the airport, immigration procedures, transport facilities, approach road to tourism destination and the comfort of stay. Some of these are discussed in some detail in next few paras.

- b. The scarcity of good quality hotels at reasonable prices is an important constraint in the expansion of international tourism in India. This scarcity is due to the enormous difficulties in acquiring land for hotel development. The delays involved in getting necessary permissions, and the uncertainty which is often involved in the process adds to costs and the result is that hotel rooms in Bangkok typically cost 50% of what they do in India for hotels of comparable class. With growing business travel, which is typically not price sensitive, the existing good quality hotels in the metropolitan cities in India are able to charge high prices for business travelers and this inevitably discourages tourism. Expansion in medium priced hotel capacity in the major metros and tourist centers is essential. This requires focused attention of the local authorities in making land available and in ensuring expeditious grant of other necessary permissions.
- c. The limited availability of airline seats into India, especially from the major tourist destinations, is another major constraint in tourism. Much of the problem arises because our policy on bilateral air service agreements has been too restrictive in granting additional seats to foreign airlines, especially on routes that are otherwise crowded, mainly because of the desire to protect Air India, which would lose market share if foreign airlines are granted additional capacity. This is especially so because Air India is not able to upgrade its own service or expand capacity sufficiently. We note that a number of bilateral agreements have been signed recently, but many of these are with carriers which do not fly the critical routes where there is congestion. Air India's poor financial performance, deteriorating service quality and inability to expand its fleet have been the subject of much comment in many fora, and we do not propose to pronounce on this subject. Whatever the reasons for Air India's problems, the concern to protect Air India's market share should not lead to imposing limitations on the ability of other airlines to increase total seat capacity to India. This only inconveniences business travel (already a frequently heard complaint) and also limits our ability to exploit our tourism potential. If we want to expand international tourism into India and benefit from its enormous employment generating capacity, we must plan for creation of excess airline capacity on the major routes. It is sometimes argued that the potential for tourism can be achieved by freely allowing charter flights to tourist destinations and we note that policy in this dimension is indeed liberal for certain destinations, e.g. Goa. However, not all tourism takes place through charter flights and at present charters to Delhi or Mumbai, which would be the preferred point of entry for many tourists, are restricted. An expansion and improvement in regular air services to India is therefore absolutely essential. We recommend that the policy on bilateral air agreements should be urgently reviewed to

ensure sufficient expansion in airline seat capacity over the next few years consistent with rapid exploitation of tourism potential.

- d. Another constraint on developing tourism in India is the very high level of internal air fares. In the past, this was partly due to the artificially high prices of Aviation Turbine Fuel which were driven by the need to cross subsidise kerosene and LPG. With the decontrol of ATF this particular problem may be resolved but there are other factors which keep domestic airline fares on the major routes higher than they should be. Tourism is a highly competitive business world wide, and high domestic airline costs are bound to discourage traffic.
- e. Tourism is also subject to fairly high rates of taxation in the form of the combined effect of Luxury Tax and Expenditure Tax on hotels, very high rates of duty on imported alcohol i.e. beverages (which actually only encourages massive smuggling and leakages through diplomatic supplies) . In many States, the rate of vehicle tax on tourist buses is very high. Of these taxes, only the Expenditure Tax on hotels and the import duty on alcohol are within the Centre's control. Consideration needs to be given by both the Centre and the States to whether the taxes on tourism could be moderated in some way to promote tourism. State Governments need to be made aware that expanded tourism will generate additional incomes and employment and higher sales tax revenues which may more than offset the loss on tourism related taxes.
- f. Finally, India's visa regime is not tourist friendly. Until the 1980s it was possible for tourists to obtain a tourist visa on arrival at the airport and this is the practice in many important tourist destinations. The policy was abandoned due to security considerations and all tourists have to obtain visas in advance. The scope for reinstating the facility should be considered at least for designated nationalities corresponding to important tourist origination centres to allow them to obtain tourist visas at major points of entry relying on computerized checking to screen out known undesirables. We understand that in any case Indian Consulates abroad undertake such a check relying upon a centralized computer data base before granting visas and there is no reason why a computerised checking facility cannot be introduced in the major airports.

#### ii) *Information Technology*

4.42 Information technology is a new area which holds out very promising prospects for large income generation, much of it in foreign exchange, with a substantial expansion in high quality employment. India's IT sector, which at present is concentrated on software, has done remarkably well over the past ten years and there is reason to believe that we have a good base on which we can now build.

4.43 The potential employment opportunities provided by IT cover highly skilled activities such as software development as well as a large number of IT enabled services such as call centres, customer relations management, back office accounting, medical transcription etc. which also produce high quality work opportunities in the organized sector. A study commissioned by NASSCOM and conducted by McKinsey has projected that by 2008 the IT sector could grow to a total turnover of \$ 80 billion of which \$ 50 billion would consist of exports. On this basis, total employment in IT and IT enabled services is projected to increase to 2 million by 2008. The quantitative significance of this projection can be appreciated when we consider (Table 2.12) that the growth in total organised sector employment in the private sector between 1994 and 1999 was less than 1 million.

4.44 The NASSCOM-McKinsey projections are subject to the usual caveats which apply for any long term projection and we note that there has been a distinct downturn in the IT sector worldwide since the projection was made. There is evidence of a slow down in growth in the IT sector in India consequent upon the world wide downturn but we would emphasise that short term developments should not weigh too heavily in evaluating medium term prospects. Even with the short-term slowdown, the growth prospects of the IT sector remain very good over the medium term provided our competitiveness in this sector can be maintained. Complacency must be avoided at all costs and government policy must give high priority to ensuring that the environment facing the IT sector remains conducive to rapid growth. In this context, Government must ensure continuous bench-marking of our performance against our emerging competitors internationally.

4.45 The most important pre-requisite for growth of IT is the availability of fault free, internal & external broadband telecom access at reasonable cost. A number of important steps have been taken in this area over the past year to expand telecom services and to open up the sector to new private sector suppliers. The corporatisation of the Department of Telecommunications Services into the new Bharat Sanchar Nigam Ltd, the opening up of domestic long distance telephone services to competition, the ending of the VSNL monopoly on international telephony by April 1, 2002, and the decision to induct a strategic partner into VSNL are all landmark decisions taken over the past 12 months which should help to create a supportive environment for the development of high quality telecommunication.

4.46 Despite these favourable developments, it is important to recognize that telecommunications is an area where the pace of change in technology is likely to make many policies obsolete even before they are fully implemented. Since it is impossible to anticipate with certainty the directions in which technology will develop and the pace of development, it is necessary to ensure that the telecom policy retains flexibility to cope

with the technological changes so that the country is not denied the benefit of new technology. The policy must ensure that the enormous potential for private investment in telecommunications is effectively exploited.

4.47 Competition is the major factor which will push the various players in this sector to bring in new technologies quickly and both policy and the regulatory framework must ensure that competitive pressures work towards improving the quality of service and ensure that costs are not out of line with international costs. The regulatory framework must ensure transparency and a level playing field to ensure fair competition among all players which is necessary to attract private investment.

4.48 The supply of trained professionals will be an important constraint in achieving the full potential of IT in the years ahead. This issue is separately examined in Chapter 6 which deals with training and skill development.

*iii) Housing and Real Estate Development*

4.49 Real estate development, because of the construction activity it involves, is one of the most labour using sectors and can generate a large number of work opportunities. Unfortunately, the development and growth of this sector has been severely constrained by outdated laws and policies governing land development and rent control which have pushed the market underground and spawned a host of undesirable practices. The stock of housing available to meet the demand of honest, law-abiding citizens seeking rental accommodation falls far short of demand and the gap has been widening. The contrast with the situation after partition, when a large housing stock was created through private investment in many of our cities, is stark.

4.50 The Central Government has taken an important step in this area by repealing the Urban Land Ceiling Act which had the effect of freezing the market for urban land. However State Governments must follow the Central Government's action by repealing their own Acts where they exist so that the land market can be freed up. While a number of States have followed suit, several States have yet to do so. The Repeal Act, initially applicable to Haryana, Punjab and all the Union Territories, has subsequently been adopted by State Governments of Uttar Pradesh, Gujarat, Karnataka and Madhya Pradesh. Some important States such as Andhra Pradesh, Bihar, Maharashtra, Orissa, Rajasthan and West Bengal have not adopted the Repeal Act so far.

4.51 Another piece of legislation which impedes rapid growth in the real estate sector is the Rent Control Act in many States. The Rent Control Act was originally introduced as an emergency measure in World War II but, like so many other World War II regulatory instruments, it became a permanent feature which effectively allowed the tenant to alienate rented property. The result is that there is no incentive to construct property for

rent and property owners in a position to rent properties often prefer to leave them empty rather than risk losing them forever. Low and middle income families typically live in rented accommodation all over the world and the need for such accommodation in our cities will only increase as the economy modernises, labour mobility increases and urbanization takes place. Continuing with the present laws in rent control will effectively prevent a sufficient growth of such accommodation and will deny the economy the benefits of construction boom.

4.52 In the absence of rent control, dilapidated urban housing would be periodically pulled down and replaced by modern apartment buildings and other complexes leading to more rational use of prime locations and also creating a continuous process of urban renewal. This has not happened in India because of rent control combined with security of tenure. This explains the run down appearance of many of our buildings in prime locations which gives Indian cities a much more shabby appearance than their counterparts in other developing countries. Repeal of the Rent Control Act could unleash a construction boom as has happened in many major cities all over the world. This is not only necessary to meet the growing unmet demand for housing, it would also have a highly favourable effect upon employment generation.

4.53 In 1992, the Central Government proposed a model rent control legislation which was circulated to all States. The Model act proposed modification of some of the existing provisions regarding inheritance of tenancy and also defined a rent level beyond which rent control could not apply. A new Delhi Rent Control Act based on this model law was passed in 1997 but it has not been notified to date because of resistance from traders who are sitting tenants. A few States have introduced Rent Control Model Act but most States have yet to enact new legislation.

4.54 These basic legislative steps would have to be accompanied by other policy reforms, such as:

- a. Ending the monopoly of the urban development authorities over city land: The record of these authorities e.g. the Delhi Development Authority (DDA) is very poor and justifies a comprehensive reexamination. Policies should allow private developers a greater role in this important area as this will give a boost to high quality construction.
- b. Giving freedom for conversion of rural land into urban usage may help to stimulate housing development. At present, we have the absurd situation in which historical village land (“Lal Dora villages”) situated within the city limits of Delhi cannot be converted into urban colonies. The current cumbersome procedures for the expansion of urban limits into surrounding village areas should be simplified.

- c. Modernisation of municipal laws and planning practices: The law must make provisions for private investment in supply of all public utilities and services and these services must increasingly be privatised subject to appropriate control over prices. Municipal authorities must increasingly focus on data gathering, analysis, planning, organisation, regulatory functions and monitoring rather than direct provision of public services.
- d. Framing of a law to facilitate private development of townships and estates. The law must specify both the rights and obligations of private developers with respect to urban services and utilities. These include inter connection with existing water mains, sewer etc, and the processing of wastes and disposal of pollutants.
- e. Stamp duties on transfer of property also needs to be reduced. The very high rates prevailing at present in most States deter legal sales and encourage grey transactions such as for example transfer under power of attorney.

*iv) Construction*

4.55 The changes recommended in the real estate sector would contribute to the expansion of construction sector and of employment in this sector. This needs to be supplemented by action to remove the bias which exists at present against large construction firms in order to ensure an improvement in the quality work opportunities in this sector. Small construction companies use migrant labourers who move from construction site to construction site with their spouses and children. These migrant labourers obviously find their occupation more remunerative than the alternatives available in the villages from which they come, but their mode of daily existence around the workplace imposes a strain on the urban areas to which they migrate and the employment opportunities generated in this process are also not of a high quality. If work opportunities in the construction industry are to be improved in quality, it is necessary to encourage the development of large construction companies which can reap the advantages of scale economies that would allow them to pay more to their employees and provide superior work conditions.

4.56 One source of bias militating against the development of large construction companies arises from government contracting practices, which give overwhelming weight to the lowest price bid relative to quality and durability of construction and also often deliberately break up large construction contracts e.g. roads, into smaller units to encourage wider sharing of construction contract. The practice of competitive bidding for award of contracts is essential for transparency but it is necessary to give much more weight to quality consideration in defining specifications and also in determining eligibility. Government construction and contracting manuals must be upgraded to reflect

modern construction practices and the need for speed in construction and durability of assets.

v) *Road Transport*

4.57 The road transport sector provides an example where there is considerable scope for expansion in future with a favourable effect on employment and especially the quality of employment. At present, passenger traffic by road is dominated by highly inefficient State Road Transport companies while freight traffic is organised largely on the basis of small truck owners. Individuals and agencies operating a handful of trucks and buses are the general norm rather than organised corporate sector trucking companies. According to one estimate 85% of the transport operators own only 1-5 trucks each and another 12% own less than 20 trucks. Only 1% of the operators own more than 100 trucks. Truck drivers employed by small companies are typically over-worked, enjoy very few facilities on the road and in general have a wage structure and related employment terms that are well below any acceptable norm in the organized sector. To some extent this reflects low levels of production efficiency. The operational efficiency of the commercial road transport vehicles in our country (about 8500 km/month) is about one sixth that of USA and Europe. This is mainly due to poor road infrastructure, high accident rates due to insufficient training of drivers, poor maintenance of vehicles and high turnaround time due to manual handling of loading and unloading operations.

4.58 The importance of transport as a part of the logistics chain, and the compulsions of modernization and increasing competitiveness, suggest that we need to develop a modern road transport industry over the next ten years. This is a sector with considerable economies of scale and the emergence of national transport companies would improve the quality of road transport services – an important objective for a growing economy – and also provide better on-the-road facilities to its workers, have better equipped truck-stops that will allow drivers a better form of rest after a long drive, and also have better vehicles to begin with. It will also generate associated services like hotels, repair shops and construction activity in and around these national hubs. Most importantly, it will deliver a more humane employment opportunity than is currently being offered to our long distance commercial drivers who spend most of their nights on the road sleeping in the vehicles.

4.59 Several initiatives are needed to make this possible.

- a. The most important pre-condition for the development of a modern truck industry is the development of high quality roads since expensive modern trucks can realise operational efficiencies only if roads are upgraded to levels that will allow such vehicles to demonstrate their superior capabilities. This underscores the importance of the recently launched National Highway Development Programme with its initial focus on

upgrading the routes on the Golden Quadrangle. Similar upgradation of roads is needed on other heavily trafficked stretches. In the longer run, there is a case for developing tolled expressways in segment where traffic demand exists for high speed transit.

- b. The establishment of mechanised truck terminals for the operation of truck services on the lines of container terminals and bus terminals would help bring about a transition to a better organised trucking industry. The improvement in handling of containers has been possible due to initiative taken by Railways, since long haul of containers is on rail network and short haul is by road. To facilitate quicker and better handling of more volumes, the inter-face between rail and road facilities was improved by establishing Container Terminals. Similar improvements for normal goods handling by trucks should be made. State Governments should attempt to set up common facilities outside major cities (“transport nagars”) for loading and unloading of large vehicles which would help to decongest cities and increase the efficiency of the road transport industry.
- c. There is at present poor planning of the interface between “highways” and “local economic social activities”. Central Government’s scheme of “Wayside Amenities”, if implemented properly, with the involvement of local authorities and private sector can bring in a lot of resources into highway support infrastructure - wash and rest rooms, food, repair services, banking, etc. All these have scope for providing good quality employment opportunities.
- d. The system of granting licenses and permits by State governments and municipalities to a restricted number of small operators limited to specific routes is an impediment to expanding and modernising this sector. It would be desirable to shift to an open and transparent system that encourages competition. Any individual or company should be free to operate transport services on each and every route in the city or state, subject only to a safety certificate. The purpose of safety certification would be to exclude irresponsible and unsafe small operators who can disappear without facing the legal consequences of their irresponsibility. There could also be a nominal license fee to ensure fiscal neutrality.
- e. The tax system to which road transport is subjected, including Road Tax, Sales Tax, Octroi and other levies, varies greatly across the States and is a major impediment to trade and therefore efficient transport. The administration of the system also encourages corruption with bribes

extracted from truckers at several points. It has been reported to the Committee that these amount to 20% of the cost of transport on the Delhi-Mumbai route. It must be noted that the prevalence of such practices militates against the development of an organised trucking industry.

- f. In the longer run, opening up road routes to neighbouring SAARC countries may provide opportunities to increase in road traffic business opportunities and also employment potential.

vi) *Distributive Trade*

4.60 Retail trade in India is characterized by relatively small family establishments generating self-employment and a limited amount of relatively low quality wage employment. Modern retailing involving large department stores has not yet emerged in any significant way although a beginning has been made in recent years to set up such stores in the major metropolises. However, it is important to recognize that rapid growth in future will be accompanied by structural change and in particular the growth of modern organized retailing sector.

4.61 Concern is sometimes expressed that the modernization of retail trade and the growth of larger scale department stores may displace self-employment in the more traditional retail segment since productivity per worker in modern retailing is typically much higher. This leads to the fear that there may be a net reduction in total employment potential. However, it is important to emphasise that expansion of modern retailing is extremely important for several reasons. It will certainly improve the quality of employment provided in this sector, and as emphasized earlier in the report, improvement of quality of employment must be an important objective over the next ten years. Modern supermarkets and department stores will also help to develop effective supply chains linking producers with potential customers, provide quick feedback on consumer tastes and a mechanism for locating alternative cheaper production sources. This encourages competition, reduces distributive margins and ultimately helps to expand the market to the benefit of both the producer and the consumer at large. The potential benefits of modern retailing in terms of lower prices is not evident in the early stages because modern retailing tends to concentrate at the upper segment of the market where price is not a dominant consideration and consumers are actually willing to pay higher prices for convenience and a superior shopping environment. They also help new producers and new products to gain access to potential consumers thus spreading the growth of employment more generally.

4.62 An important factor holding back the development of modern retailing is the distorted rental market because of which a large number of existing shops survive primarily because they occupy rented premises at very low rents while the growth of

modern retailing outlets are held back because they cannot be established without paying exorbitant rents or purchasing land (with vacant possession) at inflated cost. Liberalising land and rental markets is an important precondition for developing an efficient and modern retail sector which is necessary to support the high growth scenarios projected in Chapter 3.

4.63 Another policy constraint on modern retailing is that foreign direct investment in this sector is not allowed. Experience of other fast growing developing countries shows that foreign direct investment is allowed in retailing and has had a generally favourable effect. There is a case for opening up this sector for FDI.

4.64 Non traditional retailing such as direct selling by salespersons approaching consumers at home is an emerging area that may provide additional quality employment and the same needs to be supported by way of rationalization of tax procedures and suitable changes in weights and measures Act with respect to declaration about various features of the commodity and the prices.

*vii) Education and Health Services*

4.65 These are clearly areas where existing facilities are highly inadequate, especially in rural areas and considerable expansion is needed to provide minimum levels of access to every citizen. Much of this expansion has to be financed by the public sector which may also need to be major provider of these services. However, there is also room to consider a combination of public and private sector suppliers to meet essential needs in this area. Expanded supply of these services to meet existing deficiencies clearly holds prospect for a substantial expansion in employment. The critical constraint is the availability of public resources, especially in State Governments, to support expansion needed in health and education.

4.66 The entry of the private sector can help reduce costs, improve efficiency, productivity and quality of output in both health and education. It is important to note that the highly lauded success of Kerala in literacy and school education has not been based only on public provision of schooling. Private schools have played an important role, a role supported by the Government by providing the right atmosphere. The structure of oppressive controls and dysfunctional regulation of private education in most States needs to be replaced by a modern regulatory system that minimises compliance cost for honest private educational establishments and focuses instead on creating transparency and detecting fraudulent practices.

*viii) New Emerging Services*

4.67 The specific services areas identified above are only the major areas in the services sector. Rising income levels, accelerated urbanisation, technological changes

globalisation and the communications revolution are all producing structural changes in the economy which are giving rise to a host of emerging services many of which necessarily belong to the organised sector which will provide new opportunities for employment. A list of such services provided by the Confederation of Indian Industries (CII) is given in the Appendix to this chapter. Policy and regulatory constraints affecting employment in this sector need to be constantly reviewed.

4.68 To summarise, the macro level policy initiatives aimed at supporting faster rates of growth, discussed in chapter 3, need to be supported by sector policy initiatives in areas which can generate growth of employment or improve the quality of employment. There is a wide range of such policies and bold steps to push these policies to maximum extent possible will yield positive dividends in terms of both growth and employment. Some of these policies are in the purview of the Central Government but many of which are in the purview of State Governments. The sectors reviewed in this chapter are not exhaustive. However, they illustrate the kind of policy changes needed in individual sectors to remove bottlenecks in order to accelerate growth of output and employment.

**Emerging Service Sector Activities****1. Business Services**

- A. Professional services
  - a) Legal services
  - b) Accounting, auditing and book keeping services
  - c) Taxation services
  - d) Architectural services
  - e) Engineering services
  - f) Integrated engineering services
  - g) Urban planning and landscape architectural services
  - h) Medical and dental services
  - i) Veterinary services
  - j) Services provided by midwives, nurses, physiotherapists and Paramedical personnel
  - k) Others
- B. Computer and related services
  - a) Consultancy services related to the installation of computer hardware
  - b) Software Implementation services
  - c)
  - d) Data processing services
  - e) Database services
  - f) Others
- C. Research and development services
  - a) R&D services on natural science
  - b) R&D services in social sciences and humanities
- D. Real Estate Services
  - a) Involving own or leased property
  - b) On a free or contract basis
- E. Rental/Leasing services without operators
  - a) Relating to ships
  - b) Relating to aircraft
  - c) Relating to other transport equipment
  - d) Relating to other machinery and equipment
  - e) Others
- F. Other business services
  - a) Advertising services
  - b) Market research and public opinion polling services
  - c) Management consulting services
  - d) Services relating to management services
  - e) Technical testing and analysis services
  - f) Services incidental to agricultural hunting and forestry
  - g) Services incidental to fishing
  - h) Services incidental to mining
  - i) Services incidental to manufacturing
  - j) Services incidental to energy distribution

- k) Placement and supply services of personnel
- l) Investigation and security
- m) Related scientific and technical consulting services
- n) Maintenance and repair of equipment (not including Maritime vessels, Aircraft or other transport equipment)
- o) Building-cleaning services
- p) Photographic services
- q) Packaging services
- r) Printing, publishing
- s) Convention services
- t) Others

## **2. Communication Services**

- A. Postal services
- B. Courier services
- C. Telecommunication services
  - a) Voice telephone services
  - b) Packet-switched data transmission services
  - c) Circuit-switched data, transmission services
  - d) Telex services
  - e) Telegraph services
  - f) Facsimile services
  - g) Private leased circuit services
  - h) Electronic mail
  - i) Voice mail
  - j) On-line information and data base retrieval
  - k) Electronic data interchange (EDI)
  - l) Enhanced/value-added facsimile services including store and forward, Store and retrieve
  - m) Code and protocol conversion
  - n) On-line information and/or data processing (including transaction Processing)
  - o) Others
- D. Audiovisual services
  - a) motion picture and video tape production and distribution services
  - b) motion picture projection service
  - c) radio and television services
  - d) Radio and television transmission services
  - e) Sound recording
  - f) Others
- E. Services

## **3. Construction and Related Engineering Services**

- A. General construction work for building
- B. General construction work for Civil Engineering
- C. Installation and assembly work
- D. Building completion and finishing work
- E. Others

#### **4. Distribution Services**

- A. Commission agent's services
- B. Wholesale trade services
- C. Retailing services
- D. Franchising
- E. Others

#### **5. Educational Services**

- A. Primary education services
- B. Secondary education services
- C. Higher education services
- D. Adult education
- E. Other educational services

#### **6. Environmental Services**

- A. Sewage services
- B. Refuse disposal services
- C. Sanitation and similar services
- D. Others

#### **7. Financial Services**

- A. All Insurance and Insurance-related services
  - a) Life, accident and health insurance services
  - b) Non-life insurance services
  - c) Reinsurance and retrocession
  - d) Service auxiliary to insurance (including broking and agency services).
- B. Banking and other Financial Services (excluding insurance)
  - a) Acceptance of deposits and other repayable funds from the public
  - b) Lending of all types including consumer credit, mortgage credit, Mortgage credit, factoring and financial of commercial transaction
  - c) Financial Leasing
  - d) All payment and money transmission services
  - e) Guarantees and commitments
  - f) Trading for own account or for account of consumer, whether on An exchange, in an over-the-counter market or otherwise, the following:
    - money market instruments (cheques, bills, certificate of deposits, etc.)
    - derivative products including, but not limited to, futures and options
    - Exchange rate and interest rate instruments products such as swaps, Forward rate agreements, etc. transferable securities.
    - Other negotiable instruments and financial assets.
  - g) Participation in issue of all kinds of securities, including under writing and placement as agent (whether publicly or privately) and provision of services related to such issue.
  - h) Money binding

- i) Asset management, such as cash or portfolio management, all forms of Collective investment management, pension fund management, custodial Depository and trust services.
  - j) Settlement and clearing services for financial assets, including securities, Derivative products and other negotiable instruments.
  - k) Advisory and other auxiliary financial services on all the activities listed in article is of MTN, TNC/W/50, including credit reference and analysis, Investment and portfolio research and advise, on acquisitions and own corporate restructuring and strategy.
  - l) Provision and transfer of financial information and financial data processing And related software by providers of other financial services.
- C. Others

## **8. Health-related and Social Services**

(other than those listed under 1.A h j)

- A. Hospital services
- B. Other human health services
- C. Social services
- D. Other

## **9. Tourism and Travel-related Services**

- A. Hotels and Restaurants (including catering)
- B. Travel agencies and tour operators services
- C. Tourist guides services
- D. Others

## **10. Recreational, Cultural and Sporting Services**

(other than audiovisual services)

- A. Entertainment service (including theatre, live bands and circus services)
- B. New agency services
- C. Libraries, archives, museums and other cultural services
- D. Sporting and other recreational services
- E. Others

## **11. Transport Services**

- A. Maritime transport services
  - a) Passenger transportation
  - b) Freight transportation
  - c) Rental of vessels with crew
  - d) Maintenance and repair of vessels
  - e) Pushing and towing services
  - f) Supporting services for maritime transport
- B. Internal waterways transport
  - a) Passenger transportation
  - b) Freight transportation
  - c) Rental of vessels with crew

- d) Maintenance and towing services
- e) Supporting services for internal waterways transportation
- C. Air transport services
  - a) Passenger transportation
  - b) Freight transportation
  - c) Rental of vessels with crew
  - d) Maintenance and towing services
  - e) Supporting services for internal waterways transportation
- D. Space transport
- E. Rail transport services
  - a) Passenger transportation
  - b) Freight transportation
  - c) Pushing and towing services
  - d) Maintenance and repair of rail transport equipment
  - e) Supporting services for rail transport services
- F. Road transport services
  - a) Passenger transportation
  - b) Freight transportation
  - c) Rental of Commercial vehicles with operator
  - d) Maintenance and repair of road transport equipment
  - e) Supporting services for road transport services
- G. Pipeline transport
  - a) Transportation of fuels
  - b) Transportation of other goods
- H. Services auxiliary to all modes of transport
  - a) Cargo-handling services
  - b) Storage and warehouse services
  - c) Freight transport agency services
  - d) Others
- I. Other services not included elsewhere

## CHAPTER 5

### **THE ROLE OF SPECIAL EMPLOYMENT PROGRAMMES**

One of the elements of the employment strategy we have followed thus far has been the financing of various types of special programmes designed to create additional employment opportunities to supplement the employment generated by the economy in the normal course. Some of these programmes are targeted to provide wage employment or self-employment to specific target groups such as the poor in urban and rural areas, women, scheduled castes and scheduled tribes. In addition to targeted employment programmes, there are wage and self employment programmes which are not targeted.

5.2 The total expenditure on the major programmes for wage employment and self-employment in rural and urban areas in recent years is shown in Table 5.1. Expenditure on these programmes increased sharply from Rs.4121.33 crores in 1990-91 to Rs.8697.63 crores in 1999-2000. However, as a percentage of the total Central Budget support for the Central Plan the allocation for these programmes has decreased from 23.6 % in 1990-91 to 20 % in 1999-2000. This reduction reflects the pressure of other plan schemes on the limited resources available from the Budget to support the central plan. The individual programmes of wage employment and self employment have been modified from time to time on the basis of experience gained and a substantial restructuring involving merger of similar programmes has taken place recently. In this chapter we present an assessment of the effectiveness of these programmes based on past performance and their potential role in the employment strategy for the future.

#### **1. Employment Programmes for the Rural Poor**

5.3 The major ongoing employment programmes for the rural poor are the Employment Assurance Scheme (EAS) which is a wage employment programme, the Swarnjayanti Gram Swarozgar Yojana (SGSY), which is a self employment programme involving merger of the erstwhile IRDP and its various component programmes, and the Jawahar Gram Samriddhi Yojana (JGSY), which is now conceived as a rural infrastructure development scheme, but which also provides employment to the rural poor.

##### *i) Employment Assurance Scheme*

5.4 The Employment Assurance Scheme (EAS) is the only major wage employment programme for rural areas. It was launched in 1993 and was initially limited to the 1778 economically most backward blocks. The scheme was designed to provide supplementary

**Table 5.1****Expenditure for major Employment Programmes**

(Rs.crores)

	Wage Employment				Self-Employment			Total (1) to (7)
	JRY/ JGSY	MWS <sup>2</sup>	IAY <sup>2</sup>	EAS	IRDP/ SGSY	PMRY	KVIC <sup>3</sup>	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	
1990-91	2588.52	279.74	213.07	-	809.49	44.51 <sup>a</sup>	186	4121.33
1991-92	2663.23	495.18	263.01	-	773.09	50.00 <sup>a</sup>	193	4437.51
1992-93	2709.59	534.05	233.84	-	693.08	45.00 <sup>a</sup>	193	4408.56
1993-94	3878.71	639.74	481.00	183.75	956.65	137.00	208	6484.85
1994-95	4268.33	776.18	500.38	1235.45	1008.32	872.00	216	8876.66
1995-96	4466.91	559.07	1368.34	1720.61	1077.16	1378.00	337	10907.09
1996-97	2156.93	499.10	1383.90	2138.35	1126.90	114.94	309	7729.12
1997-98	2439.38	462.83	1591.48	2904.97	1109.54	1217.43	444.78	10170.41
1998-99	2518.92	474.34	1802.67	2819.77	1160.89	975.79	346.23	10098.61
1999-00*	2205.60	*	2132.30	2432.10	1260.70	465.00	201.93	8697.63

Sources: Ninth Plan Document Vol.II, (ii) Annual Plans, and (iii) Basic Rural Statistics.

\* Figures for 1999-2000 are based on Budget outlay and not expenditure.

<sup>a</sup>The figures are for Self Employment Scheme for Educated Urban Youth (SEEUY).

Note 1 The Million Wells Scheme (MWS) which was originally a part of Jawahar Rozgar Yojana (JRY) had separate allocations between 1996-97 and 1998-99. But from 1999-2000 it was merged with Swarn Jayanti Gram Swarozgar Yojana (SGSY).

Note 2 With effect from 1992-93 names were attached to rural well construction and rural housing constructions under JRY. From 1992-93 rural well constructions were made under MWS and rural housing constructions under Indira Awas Yojana (IAY). IAY and MWS became separate schemes in 1992-93. MWS was merged to SGSY in 1.4.1999 but IAY continued to be a separate scheme.

Note 3 Expenditures of Khadi &amp; Village Industries Commission (KVIC) are obtained from Deptt. of Small Scale Industry and Agro &amp; Rural Industry.

wage employment for the unskilled rural poor in these specially backward blocks where incomes were low and employment opportunities were lacking. The programme was administered by the district administration. In order to ensure that only persons from households below the poverty line obtain employment under this programme, all eligible persons had to register themselves with district authorities and only registered beneficiaries were supposed to get employment. In 1997, the programme was extended to all blocks converting it to a geographically universal programme. The programme has been restructured with effect from 1<sup>st</sup> April 1999. Along with providing wage employment opportunities to rural poor during the period of acute shortage of employment, the secondary objective of the restructured programme is creation of durable community, social and economic assets for sustained development.

5.5 A comprehensive evaluation of the EAS by the Programme Evaluation Organisation (PEO) of the Planning Commission has revealed a number of flaws. The wage:material norm of 60:40 has not been observed. Genuine muster rolls have also not been maintained. Prescribed norms relating to the type of assets to be created (40% for watershed development and 20% each for minor irrigation link roads and buildings for schools and anganwadis) have not been followed. There has been a tendency to prefer assets such as school buildings and buildings for anganwadis which are not the most labour intensive. However, because of the requirement that employment can only be provided to registered beneficiaries the average employment per beneficiary was found to be 31 days per year, which is much higher than for the JRY (see below).

*ii) Jawahar Gram Samridhhi Yojana*

5.6 The JGSY was introduced on 1.4.99 as the restructured version of the erstwhile Jawahar Rozgar Yojana (JRY), which was itself initiated on 1.4.89 by merging two pre-existing separate wage employment programmes, the National Rural Employment Programme and the Rural Labour Employment Guarantee Programme. The total allocation for the JGSY in 2001-02 is Rs 1650 crores (BE).

5.7 The JRY, like its predecessors the NREP and RLEGP was initially designed as a programme for direct employment generation through the construction of various types of durable assets in rural areas. Some of the infrastructure assets created e.g. irrigation or water conservation works were also expected to contribute to farm productivity in rural areas and thus generate indirect employment, as for example when irrigation increases cropping intensity and thereby the demand for labour increases. However, this type of indirect employment creation was not the main consideration in choosing the durable assets to be created in the short term. For example, construction of school buildings may improve the quality of education and thus increase productivity and possibly also employment in the longer term, but it has limited indirect employment effects in the short

term. Similarly, construction of rural houses or panchayat buildings helps develop rural areas in a broad sense, but does not generate indirect employment in the short run.

5.8 Since the primary objective of the programme was the creation of direct employment, projects selected for implementation under JRY had to conform to the requirement that at least 60% of the expenditure had to be on the wage component. The insistence upon a high wage proportion often made it difficult to undertake work of a durable type that would add to the productive employment potential of rural areas. In other words, there was often a potential conflict between the objective of creating direct wage employment in the short run and the objective of promoting broader based rural development, with indirect employment creation which is permanent.

5.9 An important feature of JRY was that, unlike the EAS, it was implemented at the panchayat level, with funds being devolved to village panchayats, intermediate bodies at tehsil level and district panchayats in the ratio of 70:15:15. Devolution of resources has brought about involvement of elected representatives in selection and implementation of the rural works which will in the longer run ensure greater participation. However, a concurrent evaluation of JRY conducted in 1993-94 revealed several problems.

- Projects selected often bore little relationship to local needs and conditions reflecting inadequate planning and design capability at the decentralised level.
- Resources were spread thinly to ensure wide coverage of area and as a result the quality of individual works has suffered. The duration of employment created in any area has also been relatively limited
- At the village level there was a strong preference for construction of durable assets. Since these could not be fitted within the prescribed norms for labour:material cost, muster rolls were fudged to get around these norms. The volume of employment reported as being created under the programme is therefore exaggerated.
- Fudging of muster rolls is also used for misappropriation of funds and has become a major source of corruption. This also implies that officially reported figures of employment created are exaggerated. According to one study actual employment created may be only one-third of the reported amount.
- JRY was meant to be implemented by use of local labour but, in practice, works in many areas were carried out by contractors. As a result, employment was provided to labour from outside the area. The timing of work was often not consistent with seasonal periods of slack labour demand in agricultural activity. As a result, the employment generated may not have helped to supplement incomes of the poor in the local area.

5.10 These problems were sought to be addressed by the restructuring of JRY into JGSY. It was recognised that there is a strong preference at the village level for creation of durable assets which often required acceptance of a lower wage component than 60%, it was also recognised that a programme for construction of community assets must involve the community and therefore be “demand driven” with direct employment creation being a secondary objective. In consequence, wage: material norms have been abolished. This is likely to reduce the volume of direct employment creation under JGSY though it could increase the potential indirect employment created by the programme if the assets created are production enhancing. However, this depends upon the rural works being well designed and implemented. There is evidence of improvement as a result of these initiatives especially in the selection of projects based on local needs and also ensuring that local workers get work.

5.11 Since both JSGY and EAS are major programmes, which provide rural employment, it is useful to consider their contribution to rural employment creation by taking the two schemes together. The estimated total number of mandays generated under the two schemes based on official records is shown in Table 5.2 along with the equivalent manyears (see footnote to the Table for the basis of conversion). The total employment generated by these two programmes in 1998-99 (the last year for which full year information is available) is equivalent to 4.4 million manyears. Compared to the size of the total rural labour force of over 300 million this is only 1.5% and if adjustments are made for the likely over-reporting in official figures, the percentage is even lower. However, comparing the employment created under these schemes to the total labour force in rural areas is not appropriate since these schemes are aimed specifically at the rural poor. If we assume that this segment is about 30% of the rural labour force, the contribution of the employment schemes increases to about 5% of the labour force. This is still small but considering the scale of unemployment in rural areas (around 7%) it can be said to make a significant difference. One can therefore conclude that the schemes do help to contain the level of unemployment at the margin.

5.12 An important feature revealed in Table 5.2 is that the total volume of employment generated by these schemes is not increasing over time. This is because rising material cost and wage rates, and also a shift in emphasis towards asset creation, has made it difficult to increase volume of employment provided by these schemes within budgetary resources available. Since budget constraints are likely to remain very severe, it is reasonable to assume that while special employment programmes play an important role in providing supplementary employment which will support income levels among the rural poor, they cannot be expected to generate significant additional employment to meet the needs of the growing labour force. We, therefore, recommend that these schemes should

continue but their limitations in contributing to future growth in employment and therefore their role in the overall employment strategy should also be appreciated.

**Table 5.2**

**Employment Generated From Rural Wage Employment Programmes**

	Mandays of Employment (Lakhs)		Manyears of Employment (millions) <sup>1</sup>	
	JRY/ JGSY	EAS	Total (1) + (2)	
	(1)	(2)	(3)	(4)
1990-91	8745.59		8745.59	4.9
1991-92	8092.01		8092.01	4.5
1992-93	7821.01		7821.01	4.3
1993-94	0258.40	494.74	10753.14	6.0
1994-95	9517.07	2739.56	12256.63	6.8
1995-96	8958.25	3465.27	12423.52	6.9
1996-97	7453.88	4030.02	11483.90	6.4
1997-98	3958.00	4717.74	8675.74	4.8
1998-99	3752.10	4165.31	7917.41	4.4
1999-00	1450.05 <sup>(P)</sup>	1515.16 <sup>(P)</sup>	2965.21	1.6 <sup>(P)</sup>

Source: (i) Ninth Plan Document Vol.II, (ii) Annual Plans, and (iii) Basic Rural Statistics-various issues, published by Ministry of Rural Development.

Note 1- While converting man days into man years, 180 days' work has been assumed as work for the whole year.

<sup>(P)</sup> Data for 1999-00 are not for the full year. Data are as per report on physical progress prepared on 3.3.2000 by Ministry of Rural Development.

iii) *Self-Employment for the Rural Poor : From IRDP to SGSY*

5.13 Promotion of self-employment for the rural poor has long been an important element in the overall employment strategy and the Integrated Rural Development Programme (IRDP) started in 1980-81 has been a major instrument for this purpose. IRDP was designed to assist identified beneficiaries below the poverty line to take up some form of self employment as a means of generating additional income which might take the households above the poverty line. Eligible beneficiaries below the poverty line were identified by the District Rural Development Agency (DRDA) and assisted through a combination of capital subsidy provided by the government plus credit provided by the commercial banks. The banks were supposed to ensure that credit is extended only to projects which are commercially viable.

5.14 Over the years a number of subsidiary and allied programmes evolved under the umbrella of IRDP such as the Training of Rural Youth for Self-Employment (TRYSEM), the Development of Women and Children in Rural Areas (DWCRA) and the Million Wells Scheme (MWS) all of which were introduced in the 7<sup>th</sup> Plan, the Ganga Kalyan Yojana (GKY) introduced in 1.2.1997, and the Supply of Improved Toolkits to Rural Artisans (SITRA) introduced in 1992.

5.15 On 1.4.99 all rural self-employment programmes were merged into the Swarnajayanti Gram Swarozgar Yojana (SGSY) in order to ensure greater integration of the programmes at the implementing level. It is too early to evaluate the impact of the restructuring brought about by SGSY, but it is worth reviewing the limitations of the earlier IRDP, revealed by numerous independent evaluations. It should be noted that these assessments are based on studies of the working of IRDP prior to the recent restructuring of the programme, and some of these deficiencies may have been overcome.

- Beneficiaries were often not of the targeted group and subsidies and loans were appropriated by non-poor individuals through political connections. This vitiates the effectiveness of targeting though it does not by itself negate the employment generating effect.
- The average investment per family was often too low to generate additional income on the scale needed to take families out of poverty. This investment amounted to Rs.7889 at the beginning of the Eighth Plan. It had risen to Rs.16,753 at the beginning of the Ninth Plan, but because of inflation the increase in real terms was not very substantial. The inadequacy of the investment means that projects were unviable and therefore did not generate sustainable employment.
- The projects selected were often unviable because the beneficiaries were typically not in a position to choose viable projects and manage them. A variety of problems including access to raw materials or lack of markets for their production remain

unresolved. The assessment of viability by commercial banks was generally perfunctory because banks typically regarded IRDP lending more as a social compulsion than as normal commercial banking activity.

- The target driven approach to IRDP lending meant that banks engaged in mechanical lending to meet targets. For some time, IRDP became a scheme for distributing milch animals without regard for whether feed or veterinary care would be available, or whether the milk offtake could be assured. The same animal was often sold over and over again to new IRDP loanees. Over time a variety of tertiary activities became eligible for financing but the quality of lending did not improve significantly. In UP, a bank branch gave 20 loans for setting up shops in a village of 143 households!
- There is evidence of massive leakage and corruption. Beneficiaries receiving loans often have to bribe officials of banks and the district administration and this situation is accepted by beneficiaries because there is in any case an impression that bank loans under IRDP do not have to be repaid. The recovery rate from IRDP loans was as low as 32% in 1999-2000 whereas other micro-credit programmes implemented through NGOs such as the Rashtriya Mahila Kosh have recovery rates of 90%.
- TRYSEM was designed as a training scheme linked to IRDP in the hope that the provision of training would help to ensure project viability. However, only 3% of IRDP beneficiaries actually received training under TRYSEM. What is more disturbing, only 23% of those trained under TRYSEM received assistance from IRDP. The training imparted was not related to the capacity or aptitude of the trainees nor to demand for the respective skills. Many TRYSEM beneficiaries viewed the programme simply as a means of receiving a stipend during the training period and not as a way of developing genuine skills which would help in self-employment.
- SITRA provides artisans with a kit of improved handtools. The financial limit for the value of tools is Rs.2000 of which the beneficiary pays 10% the rest being covered by a subsidy. This scheme is reportedly well received by beneficiaries.
- DWCRA is another sub-component of IRDP which aims at improving the living condition of women. It encourages collective work in the form of group activities which are known to work better. The nature of the programme varies from state to state but it has worked very well in some states such as Andhra Pradesh, Kerala, Tripura and Gujarat. In Andhra Pradesh, DWCRA is essentially a programme implemented through Self-Help groups. The group approach creates more

opportunities for better employment. Watershed development, which generates more employment, is also being encouraged in Andhra Pradesh.

5.16 The number of families assisted through IRDP has declined steadily from around 3.7 million per year in the Seventh Plan to 2.2 million in the Eighth Plan and further to 1.8 million per year in the first two years of the Ninth Plan. A large part of the explanation lies in the fact that the total size of the investment required for viable projects has increased whereas the total resources available under the programme have not increased commensurately.

5.17 From 1980-81 when the programme began, to 1989-90, the programme has assisted 53.5 million families which is almost equal to the total number of rural poor families in the country. If the programme were really able to achieve its objective of raising assisted families out of poverty it would have achieved near complete elimination of poverty in rural areas! It has clearly not done so for all the reasons documented above. As noted above, some elements of IRDP e.g. SITRA and DWCRA are working well, but the programme as a whole has suffered from serious deficiencies. The restructuring of IRDP into SGSY is definitely a step in the right direction and may lead to improve performance in future.

## **2. Employment Programmes for the Urban Poor**

5.18 Parallel with the effort in rural areas, there have been special employment programmes for urban areas also, focussing on both wage employment as well as self-employment for the urban poor.

### *i) Wage Employment Programme in Urban Areas*

5.19 The Urban Wage Employment Programme (UWEP) is a successor to an earlier wage employment programme called Scheme for Urban Wage Employment (SUWE), which was a part of the Nehru Rozgar Yojana for urban areas. UWEP seeks to provide wage employment to beneficiaries below the poverty line living within the jurisdiction of Urban Local Bodies with a population less than 5 lakhs. Community Development Societies are expected to identify missing basic minimum services which will be prioritised and these works will then be financed under UWEP. The material:labour ratio for works under this programme is 60:40 and the wage paid shall be the minimum wage as notified in the relevant area.

5.20 The total expenditure for this programme in 1999-2000 was Rs. 177.81 crores. It is estimated that the programme generated about 10.1 million mandays of work, which is about 56,000 equivalent manyears of full time employment assuming 180 days equals 1 man year. This is less than one-tenth of one percent of the urban labour force.

*ii) Self-Employment for Urban Poor*

5.21 A programme of Self-Employment Programme for Urban Poor (SEPUP) was launched in 1986 aimed at assisting beneficiaries from urban poor households living in cities with a population of 10,000 and above. Loans of Rs.5000 were provided by the banks with a capital subsidy of 25% of the total loan. From 1986 to 1991 about 1.5 million beneficiaries were sanctioned loan amount of Rs.566 crores i.e. an average loan of Rs.3773 per beneficiary, for starting various types of town services including services requiring no special skills such as tea shop, pan shop, rickshaw pulling etc and also services requiring special skills such as repairing of TV, radio, carpentry, electrical etc. Financing was also provided for micro manufacturing units such as plastic toys, washing powder, ball pen, and ready made garments etc.

5.22 From 1992-93, SEPUP was merged with a Scheme of Urban Micro Enterprises (SUME) which was part of the Nehru Rozgar Yojana launched in 1989. When the NRY was replaced by SJSRY on 1.4.99, SUME was merged into the Urban Self-Employment Programme (USEP) which is one component of SJSRY. The maximum loan was limited to Rs. 50,000 and the maximum allowable subsidy will be 15% of the project cost, subject to a limit of Rs. 7500. The beneficiary is required to contribute 5% of the project cost as margin money. For comparison, under IRDP maximum loan is limited to Rs. 25,000 and the maximum allowable subsidy is 30% of the project cost, subject to a limit of Rs. 7500.

**3. Self-Employment for Educated Youth**

5.23 In addition to the programmes discussed above, which are targeted to benefit the poor in rural and urban areas, the employment strategy has also sought to provide employment opportunities for growing numbers of educated youth who may not be from poor families but who face severe difficulties in finding gainful employment. As pointed out in Chapter 2, this category has the highest unemployment rate of any group in the labour force. Responding to this problem, a Self-Employment for Educated Urban Youth (SEEUY) Programme was launched during 1983-84.

5.24 SEEUY was targeted at educated youth in the 18 to 35 years age group satisfying the criterion of belonging to families with income not exceeding Rs.10,000 per annum, which was much higher than the poverty line at the time. Assistance was to be in the form of a loan from commercial banks upto a maximum of Rs.25000 with the central government providing capital subsidy of 25% of the loan. The scheme covered urban areas other than cities with a population of more than one million.

5.25 During the years 1983-84 to 1989-90, about 1.3 million beneficiaries were sanctioned loans amounting to Rs.2620 crore. SEEUY was later incorporated into the Prime Minister's Rozgar Yojana (PMRY) which was launched on 2<sup>nd</sup> October 1993. In

1994-95, the PMRY programme was extended to cover rural areas also. The programme aimed at setting up seven lakh micro enterprises during the VIII Plan period (1992-97) providing employment to more than a million persons over the period. Educated youth in the age group of 18-35 years, belonging to families with annual income up to Rs.24,000, were eligible. The income criterion ensured that the individuals assisted, though not from poor families, would also not be from upper income groups. Eligible activities include a wide range such as horticulture, piggery, poultry, fishing and small tea gardens. All economically viable activities are covered excluding direct agricultural operation. Activities under industry, service and business are assisted. Assistance takes the form of a bank loan with a subsidy of 15 %, subject to a maximum of Rs.7500 per beneficiary\* without collateral guarantee.

5.26 The performance of PMRY in 1994-95 has been evaluated by the Institute of Applied Manpower Research and the evaluation showed a number of positive features. The scheme generated four times the targeted level of applications for assistance indicating substantial interest. The loans sanctioned by banks were 80% of target. The average value of investment per PMRY unit was just over Rs.63,000 and the investment cost of full time employment was Rs.26,479 per man year which is substantially larger than for the rural poverty programmes. An important aspect of PMRY is that 75% of the beneficiaries made additional investment from their own resources in addition to the amount provided by bank loans and the capital subsidy. Of these, 58% invested up to Rs.10,000 and the remaining 17% more than Rs.10,000.

5.27 The average annual profit generated per PMRY unit was about Rs.35,000 in the case of industrial units and Rs.39,000 in service units. This amount is net of wages paid to hired labour but it includes imputed cost of own labour. This suggests that the programme is succeeding in generating relatively good quality employment. The PMRY evaluation also showed that 65% of the beneficiaries are repaying loans, which suggests that the enterprises set up under the PMRY were economically viable. However, data available from the RBI show that the recovery rate is only 35%.

5.28 A conceptual problem in evaluating self-employment programmes is that it is not easy to determine whether the employment created by these programmes represents additional employment which would not otherwise be created, or whether the employment opportunity would have come up in any case though it may have been availed of by a different person. One can envisage a situation for example where the scope for taking up self-employment in the various activities eligible for PMRY assistance is determined primarily by the demand in the economy. In the absence of PMRY these opportunities for

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\* If two or more persons join together in a partnership, the limit of subsidy for a project increases correspondingly.

self-employment would be taken up by individuals who are able to do so without special assistance and what PMRY effectively does is that it helps certain categories of the population to gain access to these employment opportunities which may otherwise be closed to them because of lack of access to credit. In this case, PMRY does not actually create additional employment opportunities as much as help distribute existing opportunities better. It must be emphasised however that even if this is so, the scheme helps achieve a legitimate objective of broadening the range of opportunities available to educated youth.

#### **4. Khadi and Village Industries**

5.29 An important element in the Government's strategy to promote employment in rural areas is the support provided for khadi and for a number of traditional village industries including beekeeping, handmade paper, ghani oil, pickle masala, dalia, agarbathi, leather products, soap etc. There is no explicit linkage to poverty in the choice of beneficiaries and any entrepreneur willing to promote these industries in rural areas is eligible. The Khadi and Village Industries Commission (KVIC) estimates that in 1998-99, the khadi and village industries assisted sector provided full time employment for 2.6 million persons and part time employment for another 3.3 million.

5.30 The promotion of Khadi and Village Industries is the responsibility of the KVIC at the apex level, with statutory KVI Boards in each State which assist various implementing agencies, including societies of producers. KVIC has a total budgetary allocation of around Rs.400 crore in 1999-2000, which is used for the following activities.

- It provides grants and rebates to the implementing agencies to support Khadi and polyvastra. The grants are for interest subsidy, training, marketing.
- Marketing assistance for both khadi and village Industries is provided by sales outlets managed departmentally by KVIC as well as by non-department outlets.
- KVIC also has a small training programmes for artisans and entrepreneurs through which a total of 11797 persons were trained in 1998-99.
- KVIC operates a Margin Money Scheme for village industries whereby 25% of the project cost up to Rs.10 lakhs and 10% for additional cost above Rs.10 lakhs is provided as a grant, which has a lock in period of 2 years. The scheme is implemented through the nationalized commercial banks and regional rural banks.

The annual value of output from this sector is estimated at Rs.5000 crores and the net earnings from this activity is estimated at Rs.1500 crores.

5.31 The Rural Employment Generation Programme (REGP) of KVI was launched in Eighth Plan and was initially targeted to create 2 million jobs in the Eighth Plan period

1992-93 – 1996-97. The programme envisaged five types of employment generating activities: (i) Khadi, (ii) district level employment programmes; (iii) 125 blocks employment programme introduced in the Gandhi Jayanti year; (iv) national projects for production of hand-made paper, bee-keeping and leather production in rural areas; and (v) the margin money scheme (MMS). Progress of REGP was not found very satisfactory and taking into account the slow pick up of the scheme, the target of 2 million jobs under REGP had to be scaled down to 1 million jobs by the end of Ninth Plan. The main emphasis under REGP also shifted mainly to the MMS component.

5.32 Under the Margin Money Scheme, 60 per cent of resources needed for a venture are provided by the commercial banks at a subsidised interest rate, about 25 per cent by Government through KVIC, and about 15 per cent by the beneficiary. Eligible agencies under the scheme are (i) individuals (rural artisans/entrepreneurs) for projects upto Rs.10 lakhs and (ii) institutions, cooperative societies, trusts registered with KVIC/KVIB for projects up to Rs.25 lakhs. 25% of the project cost up to Rs.10 lakhs will be provided by KVIC as Margin Money by way of backend subsidy. For projects above Rs.10 lakhs and upto Rs.25 lakhs rate of margin money will be 25 per cent of Rs.10 lakhs plus 10% of the remaining cost of the project.<sup>5</sup> The borrower is required to contribute 10% of the project cost (5% in case of weaker section). The margin money is deposited by KVIC with the banks initially in its name, and after the sanction of credit by banks, it is transferred as a term deposit of two years in the name of the borrower at the loan-sanctioning branch. This amount will be first available for adjustment by banks to the borrower's loan account after a period of two years from the date of disbursement of the loan.

5.33 One of the weaknesses of KVI activity revealed by data provided by KVIC is that the quality of employment opportunities generated from these activities is relatively modest. For example, KVIC data indicate an annual income of only Rs.4000 for full time workers (ie only Rs. 333 per month) and only about Rs.1500 (ie Rs. 125 per month) for part time workers. These figures are very low even for rural areas. The khadi programme in particular suffers from some basic infirmities. Costs are high and the product at the lower end of the quality range is not able to compete with mill-produced fabric available in the market. This explains why the production of khadi is decreasing. It was 109 million sq.metres in 1990-91 and has declined to 98 million sq.metres in 1998-99. Employment in this sector has also fallen from 14.15 lakh persons in 1990-91 to 13.85 lakh persons in 1998-99.

5.34 The potential for generating employment opportunities in rural areas through establishment of rural enterprises definitely needs to be fully exploited. The scope for

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<sup>5</sup> For the weaker section beneficiaries, the margin money grant will be at the rate of 30% of the project cost upto Rs.10 lakh and plus 10% of the remaining cost of the project up to Rs.25 lakh.

expansion of employment in the Khadi sector is very limited and it is likely that employment in this sector will continue to fall. However, employment in village industries could expand provided these units are provided appropriate support in term of credit or marketing assistance. The emphasis under the KVIC programme should, therefore, be given to setting up economically viable rural enterprises with financial assistance from banks, and close monitoring by the banks of the fulfillment of the terms of credit.

## **5. Other Programmes**

5.35 Other Programmes of Centre and States which are primarily for generating self employment among special sections of labour force are National Minorities Finance and Development Corporation, National Backward Classes Finance and Development Corporation, National SC/ST Finance and Development Corporation, National Handicapped Finance and Development Corporation, Training cum Production Centres (NORAD), Support for Training and Employment Programme and National Credit Fund for Women (RMK). However, no evaluation of these corporations etc. has been made so far.

## **6. Overall Assessment and Recommendations**

5.36 It is evident from our review of special employment programmes that although the resources devoted to these programmes have increased substantially, the total volume of employment created by these programmes is relatively small and has not been increasing. If allowance is made for the fact that the official figures of employment creation almost certainly exaggerate the numbers the real contribution of these programmes would be even smaller. This does not mean that these programmes are not important. In our view, wage employment programmes can play a very useful role in providing supplementary employment to vulnerable sections of the population especially in seasonal lean periods, which are common in agriculture. They are also a potentially useful form of social safety net to deal with situations of exceptional distress e.g. droughts. In the absence of extensive system of social security the use of employment programmes as a form of social security to deal with a targeted population has a great deal of merit.

5.37 We are of the view that wage employment programmes should be focused as much as possible on maximising the developmental impact on rural areas through the creation of durable assets in the area of economic and social infrastructure. The restructuring of JGSY to give primacy to the creation of durable assets is therefore a step in the right direction. There is an urgent need to invest in such infrastructure, as the existing deficiencies in infrastructure especially in rural areas are glaring, and given the scarcity of resources it is desirable to use available resources for such investments even if the direct employment created is slightly lower. We would also recommend that in view

of the fact that EAS has been universalized to all districts, there is merit in merging the EAS and the JGSY into a single employment programme in which funds devolve to panchayats.

5.38 The experience with self-employment programmes aimed at the poor is mixed at best with some outstandingly successful examples based on self-help groups involving women, but the general experience with IRDP has not been very encouraging. Part of the problem is that it is not easy for individuals or families below the poverty line to transform themselves into entrepreneurs capable of producing marketable products and services, which have to survive in competitive markets. We recommend that the functioning of the self-employment component in the restructured SGSY programme needs to be re-oriented as much as possible towards programmes supporting self-help groups with the assistance of NGOs with a good track record. Until there is clear evidence that the traditional IRDP type assistance produces results, it may not be desirable to expand the resources devoted to these types of schemes.

5.39 The experience with PMRY, which relates to self-employment for educated youth, is more encouraging although even in this area there are significant weaknesses, reflected for example in the very low recovery rates. Looking to the likely expansion in educated new entrants in the labour force in future, and the fact that self-employment has to play a major role in providing employment opportunities for this group, we would recommend an expansion of PMRY scheme. We would emphasize however that the provision of subsidy in such schemes is much less important than is generally made out. What is essential is that credit should be available to finance viable projects and that there should be effective means of training and providing advice on technology and marketing.

5.40 The inevitable decline in employment opportunities in Khadi production needs to be met by strengthening the village industry component through which rural enterprises are established. We suggest that economic viability of the expanded rural enterprises programme be closely monitored. The Margin Money Scheme implemented by KVIC through the banks has the advantage of building in stronger checks on economic viability but very little feedback from the field is available at present in terms of the volume of sustainable employment opportunities created and the quality of jobs created.

5.41 In a situation where resources are severely constrained and there are several other demands on the system our ability to expand the total volume of resources devoted to special employment programmes in the years ahead will be limited. In these circumstances a large expansion of the size of these programmes in future is unlikely to take place and is also difficult to justify given the experience thus far. We would recommend that an independent assessment of the impact of these programmes as recently restructured should be commissioned by the Planning Commission before there is any

increase in total resources allocated to these programmes. Pending such a review, the total allocation to these programmes should be held constant at current levels, though resources could be shifted from programmes perceived to be less effective to those perceived to be more effective on the basis of current monitoring and evaluations.

## CHAPTER 6

### LABOUR FORCE SKILLS AND TRAINING

The macro-economic and sector specific policy issues aimed at generating rapid growth in output and employment can succeed only if the skill level of the labour force can support rapid growth. In this Chapter we examine the current state of skill development of our labour force and make recommendations which could help to close some of the critical gaps in this area.

#### **1. Current State of Labour Force Skills**

6.2 It is not easy to quantify the level of skills in the labour force because data on skill levels are not readily available. What is available is information on the educational attainments of the labour force and the relevant data for 1999-2000 are summarized in Table 6.1. It is evident that education levels in the labour force in India are very low. About 44.0 % of all workers in 1999-2000 were illiterate and another 22.7% had schooling only up to the primary level. If we define the minimum level of education necessary to function in a modern economy as schooling up to the middle level, then only about 33.2% of the labour force had schooling of that level and above. The percentage was higher at 57.4% for the urban labour force, but it was correspondingly worse in rural areas, with only 25.4% for the rural labour force meeting these standards.

6.3 A positive feature of the situation is that education levels will improve over time because the younger age groups are much better educated. Table 6.2 presents the educational attainment of youth (15-29) in labour force for the year 1999-2000 (and 1993-94). The percentage with middle school education or above in this age group for the country as a whole is 49.3 compared with 33.2% for the total labour force. This percentage itself is increasing over time. It was 42.5% in 1993-94 and has increased to 49.3% in 1999-2000. There are of course sharp variations across gender and place of residence; for urban males it is as high as 72.1 (66.7 in 1993-94), whereas for rural females, it is as low as 29.0 (21.7 in 1993-94).

**Table 6.1**

**Composition of workers of age 15 years and above**  
**by level of education 1999-2000**

(percentage)

---

	Not literate	Literate & schooling upto primary level	With schooling upto middle & higher level	Total	Share in Work Force
<b><u>Rural Areas</u></b>					
Male	39.6	27.3	33.1	100	49.74
Female	74.0	15.5	10.5	100	25.77
Person	51.3	23.3	25.4	100	75.51
<b><u>Urban Areas</u></b>					
Male	16.0	21.9	62.0	100	19.72
Female	43.9	17.6	38.5	100	4.76
Person	21.5	21.1	57.4	100	24.49
<b><u>All Areas</u></b>					
Male	32.9	25.8	41.3	100	69.46
Female	69.3	15.8	14.9	100	30.54
Person	44.0	22.7	33.2	100	100.00

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Source: National Sample Survey on Employment & Unemployment, 55<sup>th</sup> Round.

**Table 6.2****Percentage of persons in labour force educated middle and above 1999-2000<sup>a</sup>**

Sex	Age Groups	Rural	Urban	All areas
<b>Male</b>	<u>15-29</u>	<u>50.9 (44.2)</u>	<u>72.1 (66.7)</u>	<u>56.4 (49.8)</u>
	15-19	55.1 (49.5)	71.9 (67.4)	58.7 (52.1)
	20-24	53.8 (47.4)	73.8 (69.7)	59.2 (53.1)
	25-29	45.2 (36.6)	70.7 (63.5)	52.3 (44.0)
<b>Female</b>	<u>15-29</u>	<u>29.0 (21.7)</u>	<u>62.5 (54.5)</u>	<u>33.5 (26.5)</u>
	15-19	40.6 (30.6)	69.7 (63.6)	44.3 (34.7)
	20-24	28.9 (21.1)	64.6 (56.0)	33.9 (26.2)
	25-29	21.3 (14.2)	55.9 (47.0)	25.9 (19.6)
<b>Persons</b>	<u>15-29</u>	<u>43.4 (36.6)</u>	<u>70.3 (64.1)</u>	<u>49.3 (42.5)</u>
	15-19	50.2 (43.1)	71.4 (66.5)	54.2 (47.2)
	20-24	45.3 (38.0)	72.1 (66.7)	51.5 (44.3)
	25-29	36.7 (29.4)	68.0 (60.2)	44.1 (36.9)

Source: NSSO

Note: NSS Reports on Employment/Unemployment Survey give (i) labour force participation by age groups and (ii) level of education of population by age group. However, the Reports do not give labour force participation rates by age groups cross-classified by level of education. Therefore, estimates presented in this table are based on the assumption that distribution of labour force, in an age group, by level of education, is the same as the distribution of population in that age group by level of education.

<sup>1</sup> Figures in parenthesis are for the year 1993-94

6.4 It should be noted however that the category “middle school and above” includes all those who have had some middle school education even though they may have dropped out before completing middle school. Provisional gross enrollment rates for the year 1998-99 in the primary and the middle school levels are 92% and 58%, respectively (Table 6.3). However, the provisional dropout rates at primary and middle levels are quite high at 42% and 57%, respectively, in the year 1998-99. According to a rough estimate from the 52<sup>nd</sup> round (1995-96) of National Sample Survey, around 44% of the population (age group 14–16 years) was enrolled in the Class IX and X levels. However, only about 20% of the population in this age group actually completes secondary school education. These figures indicate that significant deficiencies in the general education level of the labour force are likely to remain in the next ten years though one can say from the past trends of increase in enrolment ratio and decrease in dropout ratio that the new entrants to the labour force will be significantly better educated than at present.

**Table 6.3**

**Enrolment in different stages of education as percent of population in the appropriate age groups 1961, 1981, 1990 & 1999**

(percentage)

Education stage/ Age group	<u>Enrolment as proportion of appropriate age group</u>			
	1961	1981	1990	1999
Primary classes (6-11 yrs.)	62.4	80.5	95.9	92.1
Middle classes (11-14 yrs.)	22.5	41.9	57.4	57.6
High/higher Secondary (14-17 yrs.)	10.6	17.3	24.0	N.A.

-----  
Source: Manpower profile of India, year book 2000 (IAMR); Table 2.1.2.0

6.5 The statistics discussed above relates to general education which is not the same thing as possession of “marketable skills”. While some jobs in a modern economy, especially clerical office jobs, may not require anything more than specified levels of formal academic education, most other jobs require specific skills. The NSSO Survey on Employment and Unemployment (1993-94) sought information on the possession of 30 specific marketable skills by persons in the labour force and the results are summarized in

Table 6.4. The skilled percentage of the work force is evidently very low. In the rural areas, only 10.1% of the male workers and 6.3% of female workers possessed specific marketable skills. The percentages were higher in urban areas, but they were still woefully low in absolute terms – only 19.6% for male workers and 11.2% for female workers.

**Table 6.4**

**Percentage distribution of persons by possession of marketable skill: 1993-94<sup>1</sup>**

Possessing	Rural		Urban	
	Male	Female	Male	Female
<b>No Skill</b>	89.9	93.7	80.4	88.8
Some Skill <sup>2</sup>	10.1	6.3	19.6	11.2
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Sample persons	(183464)	(172835)	(109067)	(99283)

Source: NSSO Report No.409 on Results of 50<sup>th</sup> round (1993-94) survey on Employment and Unemployment.

Notes: <sup>1</sup> Information for 1999-2000 not yet available, since the results released by NSSO for that year Employment Survey give the skill classification of Non Workers.

<sup>2</sup> Marketable skills that are reported by respondents are specified in Annexure 6.1.

6.6 The level of vocational skills in the labour force in India compare poorly with the position in other countries. Table 6.5 shows the percentage of younger members of the labour force (age group 20-24), which have vocational training. Only 5% of the Indian labour force in this age category has vocational skills whereas the percentage in industrial countries is much higher, varying between 60% and 80%, except for Italy, which is 44%. The percentage for Korea, which has recently been categorised as an industrialised country, is exceptionally high at 96%. The developing countries listed have percentages which are significantly lower than the developed countries, but they are still much higher than India e.g. Mexico at 28% and Peru at 17%. Differences in definition may make inter-country comparison somewhat unreliable, but the level in India is clearly far too low.<sup>6</sup>

<sup>6</sup> One reason why the comparison may exaggerate the difference is because, as pointed out in the footnote to Table 6.4, it is based on those having received training in formal institution.

**Table 6.5****Proportion Vocationally Trained among the youth in Labour Force-  
International Comparison**<sup>2</sup>

Country	Age Group	Vocationally Trained (per cent of those in Labour Force)
<hr/>		
India	20-24	5.06@
<b><u>Developing countries</u></b>		
Botswana	20-24	22.42
Colombia (1998)	20-29	28.06
Mauritius (1995)	20-24	36.08
Mexico (1998)	20-24	27.58
<b><u>Developed Countries</u></b>		
Australia (1998)	20-24	64.11
Canada (1998)	20-24	78.11
France (1997)	20-24	68.57
Germany (1998)	20-24	75.33
Israel (1998)	18-24	81.23
Italie (1997)	20-24	43.88
Japan (1997)	15-24	80.39
Korea Republic (1998)	20-24	95.86
New Zealand (1997)	20-24	63.03
Russian Federation (1998)	20-24	86.89
Singapore (1998)	20-24	66.24
United Kingdom (1998)	20-24	68.46

- Note:1 Vocationally trained persons are defined here as those having education level 3 or 5 as per ISCED clarifications which classifies the population across & levels of education starting with level X i.e. no education and the highest level being level 7 which post graduate level specialisation in a field. Levels 4 & 8 are not used. Level 3 of education: General education continues to be an important constituent of the programmes, but separate subject presentation and more specialisation are found at this level. Also to be classified under Level 3 are programmes consisting of subject matter mainly with a specific vocational emphasis of apprenticeship programmes, with an entrance requirement of eight full years of education, or a combination of basic education and vocational experience that demonstrates the ability to handle the subject matter of that level. Level 5 of education: Programmes of this type are usually “practical” in orientation in that they are designed to prepare students for particular vocational fields in which they can qualify as high level technicians, teachers, nurses, production supervisors etc. It may be noted however that in developing countries, economically productive skills are acquired not only in training/education institution but also through the family. Only the formal institute/school vocationally trained are shown above.
2. Only those who have received formal vocational training are shown as trained in this table. To the extent that training and skills in India are acquired through informal methods, including training in the family, the Indian figures are understated
- @ Estimates are based on (NSSO Report No.409 on Results of 50<sup>th</sup> round (1993-94) survey on Employment and Unemployment; Table 20) distribution of persons by technical education in India adjusted by labour force participation rate by sex. The corresponding percentages by sex and residence are rural female 1.7, rural male 2.3, urban male 9.4, and urban female 17.0.

6.7 These figures reveal that education and skill levels of our labour force are relatively low compared with other fast growing developing countries. The system is also excessively oriented towards general academic education with little or no vocational orientation. The preference for general education is driven primarily by the perception that an academic degree is necessary to obtain a government job, which is highly valued because job security is virtually complete and pay scales are typically much above market wages. The net result is that the education system has neglected the need to provide vocational skills and also to generate awareness and demand among students for acquiring, marketable skills.

## **2. Present Training System**

6.8 There are several methods of acquiring skills, which are used by persons entering the labour force, and these are briefly described below.

### *i) Hereditary skills acquired in the family*

6.9 This is the typical method of acquiring skills in traditional family based crafts e.g. weaving, pottery, carpet weaving, etc. This method is also relevant for a range of contemporary skills within small family businesses e.g. tailoring, haircutting, repair work etc.

### *ii) On the job training:*

6.10 This is the process whereby workers join businesses to do unskilled or semi-skilled work and then pick up specific skills in the course of their employment with or without explicit guidance. Training of this type takes places in an informal manner in smaller industrial organizations and in a more organized manner in larger industrial units, some of which may have substantial in house training facilities to upgrade skills.

### *iii) Education related to work*

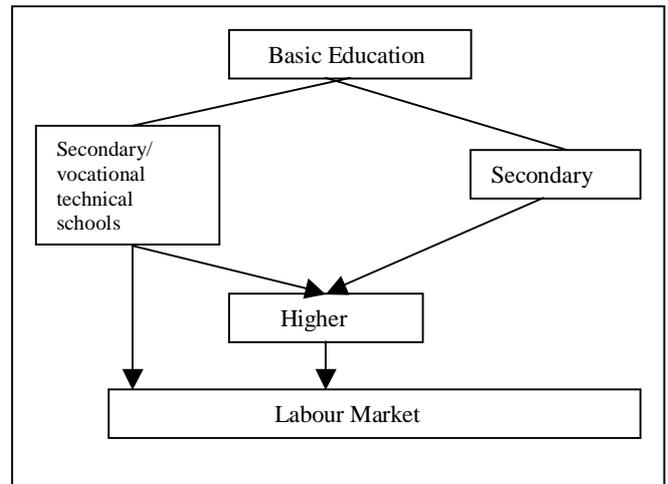
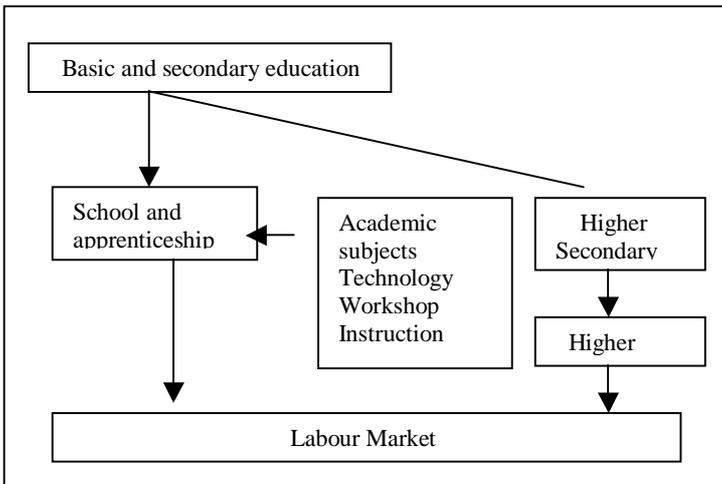
6.11 The educational system directly produces trained persons in disciplines where professional qualifications are needed e.g., doctors, lawyers, engineers, MBAs etc. General academic degrees also satisfy basic educational requirements for a number of managerial and administrative positions, where subsequent training is provided on the job or through in-house training. However, there is a large mismatch between the number of generalist graduates being produced and the availability of such jobs. General education can generate marketable skills if vocational training is integrated into the school syllabus, as is the case in some countries (see Fig. 6.1). An effort at such integration has been made in India by introducing Vocational training courses at the 10+2 level in 6486 schools under a Centrally Sponsored Scheme. However progress under the scheme is much behind the target. At present only about 8% of the students are estimated to be in the

**Figure 6.1**

**School-to-work-transition: How different training systems operate**

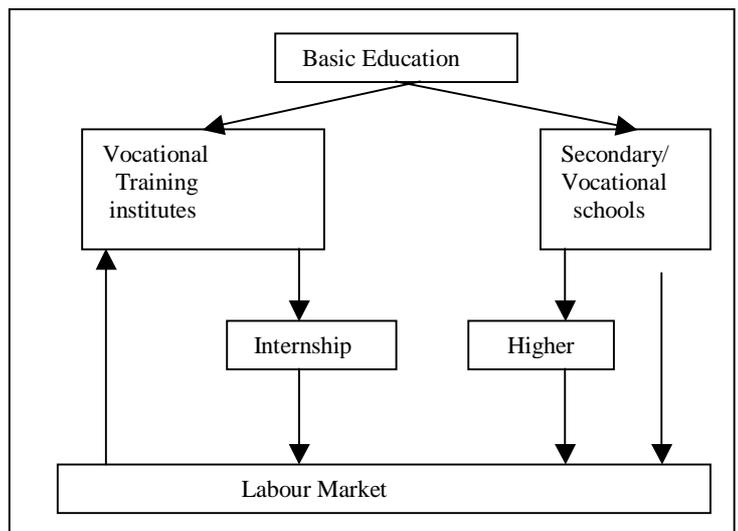
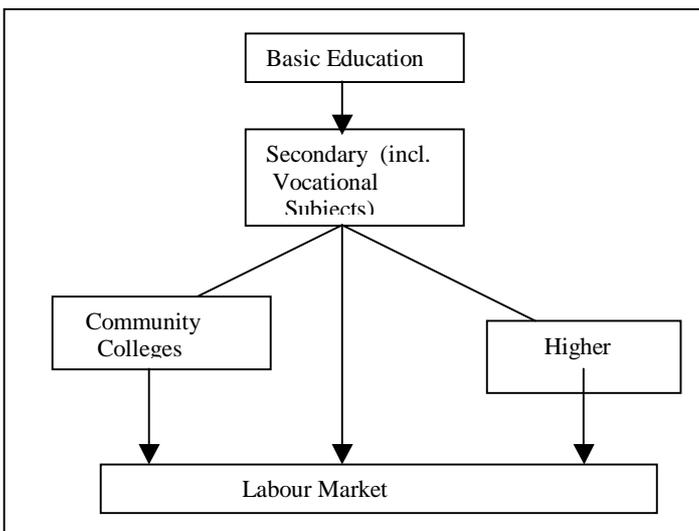
**Figure 6.1.a “German dual system”**

**Figure 6.1.b. “French system”: secondary vocational/technical schools**



**Figure 6.1.c “American system”: Diversified high school**

**Figure 6.1.d “Latin American system”: Vocational training institutes**



*Source: World Employment Report 1998-99*

vocational stream compared with a target of 10% by 1985, which was expected to increase to 25% by 2000.

*iv) Vocational training in specialised institutions*

6.12 Vocational skills can also be acquired through formal vocational training in specialised institutions. There are about 4274 Industrial Training Institutes (ITIs) imparting training in 43 engineering and 24 non-engineering trades. Of these, 1654 are government run ITIs (State governments) while 2620 are private. The total seating capacity in these ITIs is 6.28 lakh. In addition to ITIs, there are 6 Advanced Training Institutes (ATI) run by the Central Government which provide training for instructors in ITIs and 2 ATIs for Electronics and Process Instrumentation offering long and short courses for training of skilled personnel at technician level in the fields of Industrial, Medical and Consumer Electronics and process instrumentation. Apart from ITIs, there are private proprietary institutes organized as businesses, which provide training of various types in areas such as computer application or hardware maintenance, readymade garments, textiles, refrigeration, air conditioning and electronics, catering etc. The training provided by these private institutions varies in quality but there are many examples of success industry especially in computer applications where private institutions have produced a considerable stream of recruits for this sector.

*v) Formal Apprenticeship*

6.13 Apprenticeship is an important means of training semi-skilled workers in industrialised countries. The most sophisticated system is the German “dual system” (see Fig.6.1) where vocational schooling is undertaken parallel with apprenticeship. In India, the system of formal apprenticeship was introduced through the Apprenticeships Act 1961, which requires employers in notified industries to engage apprentices in specified ratios in relation to the workforce. Apprentices obtain training for periods ranging from 6 months to 4 years and at the end of the period they are trade-tested by the National Council for Vocational Training and successful candidates are awarded National Apprenticeship Certificates. As on June 30, 2000 there were a total of 2.27 lakh seats for apprenticeship training in central or state/private sector enterprises combined. However, of these, only 1.65 lakh seats had been utilized.

*vi) Vocational Training linked to Development Programmes*

6.14 In addition to formal sector vocational training methods, there are some facilities specifically designed to provide vocational training for the informal sector e.g. the schemes for training of women by the Department of Women and Child Development.

*vii) Overall assessment of present situation*

6.15 The total supply of trained persons entering the labour force in a year can be roughly estimated from the data in Annexure 6.3, which pieces together the capacity of various institutions providing technical degrees or diplomas. The data relate to different years and are therefore subject to significant version of error, but the total capacity that emerges is only about 1.7 million.

6.16 The actual number of persons expected to enter the labour force on the 1.8% labour force growth assumption is about 12.3 million per year (see Table 6.6). Allowing for underutilization of seats in training institutions and some overlaps the percentage of those entering the labour force with some degree of formal training is probable around 1.5 million or about 12% of the gross new entrants into the labour force. While a significant number of the new entrants will be absorbed in various types of unskilled labour in agricultural and non-agricultural occupations, where skills are not needed, the level of skill endowment of new entrants to the labour force revealed by these numbers is clearly not consistent with triggering a process of rapid economic growth and high quality employment generation.

### **3. Quality of Training**

The inadequacy of training capacity in quantitative terms is not the only problem. There are also serious problems relating to quality. While the quality of the output of IITs, engineering colleges or Medical colleges is very good; this is not the case with the vocational training institutions.

*i) Problems with ITIs*

6.17 Evaluation studies of the ITIs have shown that there is a great deal of variation in the quality of different ITIs reflecting partly differences across States, and partly also characteristics of individual ITIs. Many States have encouraged creation of new ITIs to cover areas not covered earlier but without adequate preparatory work, or resource input or effective follow-up action. The following deficiencies have been noted:

- Much of the training provided in the ITIs is for skills for which there is little current demand. The curriculum had not been revised for many years and was therefore not attuned to current market requirements. Some revision has taken place more recently, but more needs to be done. One reason for the lack of attention to market requirements is the lack of involvement by industry in the management of ITIs.

**Table 6.6**

**Entrants to Labour Force in Rural and Urban Areas 2000-2012<sup>a</sup>**

*(Million persons 15+)*

Entrants to the Labour Force	2000 to 2007 (7 years)	2007 to 2012 (5 years)
Rural Areas <sup>1</sup>	52.4	40.3
Urban Areas <sup>2</sup>	33.8	28.1
<b>All India</b>	<b>86.2</b>	<b>68.4</b>

Notes: 1. Excluding migrants from rural areas

2. Including migrants to urban areas

a. Corresponds to 1.8 percent per annum labour force growth scenario.

- The transference of skills in the ITIs also needs to be improved and the testing process at the end made more unreliable. All Govt ITIs and private ITIs affiliated with the NCVT, as well as the private training institutes running DOEACC accredited course, rely on formal trade testing or certification by an independent authority. However, there is a widespread perception among employers that students obtain certificates even though actual skills absorbed are very poor.
- The facilities and infrastructure in most ITIs are inadequate, with obsolete equipment in laboratories and workshops. Maintenance is also poor which means that such equipment as is available is not well maintained. These deficiencies reflect the scarcity of resources with State Governments which is exacerbated by the tendency to create new institutions in places where they don't exist, even though existing institutions are under funded.

6.18 There is a shortage of suitably trained faculty in the institutions engaged in training. Six Advanced Training Institutes, (ATIs) established by DGET have been partly meeting the needs of trained instructors required by the ITI s, but the facilities available in ATIs are not being fully utilized by the State Directorates of Employment and Training due to their internal administrative problems. The State Governments have been requested to establish instructor-training institutes to train and retrain their instructors, but the States Governments have not been able to do so due to financial constraints.

*ii) Problems with the Apprenticeship Scheme*

6.19 Some of the problems characterising training institutes are less likely to arise in formal apprenticeship training schemes where apprentices are attached to functioning industries and obtain on the job training. However, the quality of apprenticeship programmes varies greatly depending upon the firm. The bulk of the apprenticeship seats are in the public sector organisations with private sector firms generally not complying with the requirement, though there are exceptions. One of the problems that has arisen is that apprentices view apprenticeships primarily as an avenue for subsequent employment, rather than as a mode of training. Although the law clearly does not entitle them to employment, the courts have interpreted the law to mean that apprentices must get preference, and this in turn discourages employers from fulfilling their obligation under the Act.

*iii) Training for Informal Sector*

6.20 There are almost no training facilities oriented towards the needs of the informal sector, which is otherwise expected to provide a large part of the expansion in employment. The principal economic activities here are retail trade, road transport, equipment repair, construction related jobs, household industries and a growing variety of community and personal services. Productivity improvements in the informal sector or absorption of new technology, which is essential for rapid growth, is possible only if the new entrants into this sector have adequate skills but there is virtually no effective system for ensuring some training for all those entering this sector.

**4. Suggested Remedial Steps**

6.21 It is evident from our review that the system of training and skill development currently in place needs substantial modification and strengthening if we want the economy to be launched onto a high growth employment-generating path. There is no single system of training, which is universally prevalent in the rest of the world, which can be used as a role model for reforming the system of training in India. Internationally, there is a considerable variety of models that have been adopted by different countries. See Annexures 6.4 and 6.5. We have to draw selectively from international experience in the light of our particular circumstances to evolve a suitable model. Based on this approach; we have the following recommendations for the future

*i) Expansion of specialised Technical Education*

6.22 While bulk of this Report deals with vocational training, the system of general and technical education also requires considerable improvement. Given the low level of attainment in general education and expansion in the education system is necessary but it has to be given a bias towards vocational education. This is discussed in para 6.22 below.

As far as engineering education is concerned, it has to be strengthened to avail of the labour intensive activity opening in the domestic and international labour market. The present IITs have demonstrated their capability for developing high quality skilled personnel who have played a leading role in the IT revolution abroad and have been at the forefront of the growth of the Indian IT sector. Given the demand for such trained personnel from the Indian software sector and the likelihood that many will continue to migrate abroad and it will be necessary to expand the output of engineers very substantially. The aspect of the existing IITs should be trebled, and ultimately each major State should have at least one IIT. The role of private sector in higher-level general education, and higher technical education must also be expanded. While many initiatives have been taken, further policy restructuring is called for, particularly in regard to the restrictions on charging of fees from students.

*ii) Strengthening the existing ITIs*

6.23 The existing National Vocational Training System (NVTs) based on government run ITIs needs to be radically overhauled. Since these are State Government institutions, relevant decisions have to be taken by State Governments but the Central Government could take the lead by suggesting an approach to reform of the ITIs and also offering to assist States willing to undertake such reform. The following initiatives deserve urgent consideration.

6.24 Industry must have much greater involvement in the management of ITIs including involvement in the matter of design of curriculum, selection of instructors, training of instructors in factories and other establishments in the area to familiarise them with the market demand for skills and also providing equipment for training. In 1998 a joint effort between CII and the Central Labour Ministry was launched. So far, only 7 states and a union territory (Punjab, Haryana, Himachal Pradesh, J&K, Chandigarh, Gujarat, Maharashtra, Tamilnadu and Karnataka) have put one government ITI under a Joint Industry Institute Management Committee. Experience with this experiment needs to be reviewed and the experiment expanded in scale..

6.25 At present, ITIs are essentially run as departmental organisations under the full departmental control of the State Government departments responsible for technical education. It may be desirable to convert selected ITIs chosen for joint management with industry into autonomous bodies receiving government funds with a management structure in which industry representatives can be formally inducted on the governing boards and the institutions are also given sufficient autonomy to become effectively board managed.

6.26 In the longer term we have to consider the direction in which the training system should evolve. Of the various types of systems listed in Table at annexure 6.3 we feel the

cooperative system, in which there is cooperation between the State, employers organisations and trade unions may be the most suitable for India. If the experiment with autonomous jointly managed ITIs mentioned above succeeds it should be replicated on a much broad scale.

6.27 Strengthening the government vocational training institutes will require substantial funds for upgrading infrastructure and facilities and also an assured flow of resources to maintain the assets the created. Capital financing can be obtained from the multilateral institutions along the lines of the modernization of 565 ITI's by the World Bank in 1990. a similar project should be devised to modernize all remaining ITIs over the next ten years. Provision must also be made to ensure an adequate flow of resources to the institutions for maintenance. At present, 90% of the budget of the ITIs goes to pay salaries leaving very little for maintenance. It is necessary to review the present policy whereby training in Government ITIs has traditionally been provided free. It may be desirable to allow ITIs to charge fees, at least for the more specialised courses from the trainees, or from their industry sponsors.

6.28 In the medium term, the resource requirements of training require some dedicated source of funding. A cess could be levied on the pay roll of all establishments, which should be credited to a special fund directed at creation of infrastructure for vocational training. A very small fraction, say in the range of 0.1 to 0.5 per cent of salary and wages paid to organised sector workers should be utilized to create an initial corpus. Some rebate in income tax should also be considered to the employees contributing to vocational training fund. Two third of the cess that is collected in a district should be deployed in the ITIs in the same district. It should be utilized under the guidance of an advisory committee chaired by representatives of the local industry or trade chamber/association.

6.29 One of the reasons why demand for services of vocational training appears limited is the excessive demand for the degree level professional/technical education. This problem could be mitigated if graduates of ITIs and other vocational training institutions are eligible for entry into polytechnics and +2 level medical and engineering courses. Entry criteria and course curriculum would need to be redesigned for this purpose. This would also help to inculcate a culture of shifting between training and work in the formative stages of career of a professional. This practice is at present confined to post degree level in management education (MBA etc.) and specialisation in medicine (MD and super specialisation training).

iii) *Entrepreneurship training for the informal sector*

6.30 A large part of the employment generated by the economy will be self-employment in the informal sector. These self-employed entrepreneurs need training of

the multi-skill variety, going beyond production skills to include marketing, finance and accounting and elementary management. Such skills cannot be developed through structured formal training but requires the guidance of “mentors” in actual business conditions.

6.31 The Bhartiya Yuva Shakti Trust (BYST), which is a CII initiative established in 1991, is a relevant model in this context. The Trust fosters entrepreneurial activity by providing seed capital loans and practical business advice through mentors. About 1700 people have been employed in 500 ventures between 1991-2000 spread over rural and urban areas. However, it is worth noting that the loan recovery rate is 94%, indicating strong economic viability. Such experiments need to be replicated on a much larger scale.

iv) *Strengthening the Apprenticeship System*

6.32 The number of apprentices taken by public sector enterprises has been declining down due to industrial sickness and other reasons. This form of training should be extended to cover many other enterprises where the opportunities for employment are growing or are expected to grow. This would require surveying and re-surveying industrial establishments more frequently. Furthermore, the Act should be amended to make it clear that apprenticeship does not imply any presumption of preferential employment.

6.33 The informal sector and the small scale sector can give the earliest returns to training, in terms of job placement, through training provided in ‘apprenticeship’ mode. We recommend that all enterprises should be brought under the purview of Apprentices Act. However, payment of stipend to apprentices taken in by small establishments should be voluntary, and not mandatory, under the Apprentices Act.

v) *Improving Vocational Education at School Level*

6.34 Integration of vocational education at the school level is the only practical way of imparting basic technical skills to large number of new entrants to the labour force. It is relevant to consider in this context whether vocational training should be added on to the general school system or whether it should be imparted through separate schools. Korea, which has recently graduated from developing country to industrialised country status, has relied upon vocational training provided in specialised schools. The curriculum is in the local languages and such as can be comprehended by a middle school level student. Most of these schools are owned and run by the private sector and there is active involvement of industry in supporting such schools. Equally important, there are possibilities for vertical movement from vocational schools to higher (degree) level of education. Opting for vocational education therefore does not deny students the option subsequently to switch back into the mainstream. A comparison between the Indian and Korean approach may be seen at Annexure 6.5.

6.35 It is not possible to expect the education administration dealing with the general school system to administer and promote vocational education, which requires a multi-disciplinary approach. The present Department of Technical Education focusses primarily on funding IITs and IIMs but this function is not really necessary as these institutions have matured sufficiently to look after themselves. The department should be restructured to focus on vocational education and vocational training. A parallel institution is needed in State Governments to focus on vocational education schools.

*vi) Vocational training by firms or industry associations*

6.36 Industry must also take the initiative to remove bottleneck of trained manpower by taking on the job of ‘applied situation training’ as distinct from lecture based training<sup>7</sup>. These kinds of initiatives, which can help to train and retrain people, should be assigned a role in public policy on training by way of:

- recognition of courses for employment,
- making the premises and infrastructure of the local ITI available, and
- giving the expenditure on such effort the same treatment in tax policy as is given to expenditure on high tech education<sup>8</sup>.

*vii) The role of the public sector in skill development*

6.37 The role of public sector in nurturing the market for skill development services has not evolved, as it should have. Government has tended to act as a training provider and not as a facilitator encouraging others to get into training. This is partly because of historical reasons. The bulk of the infrastructure services; both industrial and social infrastructure were owned by the government as railways, civil aviation, highways, communication, electricity, petroleum, coal, etc., on industrial infrastructure side, and health, education, housing and related support services like, sanitation, and drinking water and a host of others on the social infrastructure side. On the assumption that the producer is the best provider of training, the publicly owned establishments came to own and deliver the ‘training services’.

6.38 As a result the role of the public sector as a facilitator of ‘training institutions, was ignored’ and this has had undesirable consequences. Private sector training has been discouraged because of highly subsidized training services provided by the public sector, an undesirable nexus between public owned training delivery institutions and placement for jobs in public sector, excessive regulation in extending recognition to the institutions.

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<sup>7</sup> Examples of direct interaction between Industry (through a particular firm, or through an association of firms) is the training of masons in Gujarat by a cement manufacturer, when it faced prospect of skill shortage affecting sales of its output in that region, and of Society of Automotive Manufacturers (SIAM) training the automobile drivers.

<sup>8</sup> Such incentives were introduced for IIT’s etc (*note not the ITI’s!*) in Union Budget around the year 1995.



be expanded sharply if the requisite resources are to be brought in to bridge the large capacity gaps that exist. The vocational training policy has to respond to this challenge.

6.44 The IITs require a much larger base, spread across all states, if the potential of Indian technical manpower is to be fully utilised for the benefit of the economy. A larger base of IITs, and facilities to vocational trained youth to enter into higher technical education stream will provide inspiration to those who take to vocational training right from the school stage.

**Profile of Persons having some marketable skill by type of skill possessed - 1993-94**

Skill	Code	Rural Male	Rural Female	Urban Male	Urban Female
Typist/Stenographer	01	3	2	14	10
Fishermen	02	5	-	2	-
Miner, Quarryman	03	2	-	1	-
Spinner including Charkha operator	04	1	3	2	3
Weaver	05	6	10	11	8
Tailor cutter	06	6	18	15	54
Shoemaker, cobbler	07	1	-	2	-
Carpenter	08	6	-	8	-
Mason, bricklayer	09	5	-	9	-
Moulder	10	-	-	1	-
Machine man	11	2	-	8	-
Fitter die maker	12	1	-	6	-
Welder	13	1	-	4	-
Blacksmith	14	2	-	2	-
Goldsmith	15	1	-	4	-
Silversmith	16	-	-	1	-
Electrician`	17	2	-	8	-
Repairer of electronic goods	18	1	-	5	-
Motor vehicle driver, tractor driver	19	11	-	27	1
Boatman	20	-	-	-	-
Potter	21	2	1	1	-
Nurse midwife	22	-	-	-	2
Basket maker, wicker product maker	23	3	4	1	1
Toy maker	24	-	-	-	-
Brick maker, tile maker	25	2	1	-	-
Bidi maker	26	3	7	-	7
Bookbinder	27	-	-	2	-
Barber	28	3	-	3	-
Mud house builder & thatcher	29	9	1	1	1
Others	30	24	15	57	21
Any skill possessed (Sub total)	01-30	101	63	196	112
No skill possessed		899	937	804	888
<b>Total</b>		<b>1000</b>	<b>1000</b>	<b>1000</b>	<b>1000</b>

Source: NSSO Report No.409 on Results of 50<sup>th</sup> round (1993-94) survey on Employment and Unemployment.

## Annexure 6.2

### Distribution of Males in selected Age Groups by kind of Education 1999-2000

Age Groups	Total	Not Attending	Currently Attending			
			General education upto higher secondary level ----- middle higher sec. level & eqv.level	Degree courses in agri. engg., medicine & other subjects	Diploma or certificate courses in agr.engg/tech. / medicine & other subjects	
<b>RURAL MALE</b>						
15-19	1000(a)	586	94	291	21	9
20-24	1000(b)	888	5	35	46	16
<b>URBAN MALE</b>						
15-19	1000(c)	407	69	395	74	30
2024	1000(d)	763	3	46	128	53

Source: Table 42 of NSSO Report 458(55/10/2) on 55<sup>th</sup> Round (1999-2000) survey on Employment & Unemployment

Notes:	(a)	Sample size	26249
	(b)	“	20997
	(c)	“	17483
	(d)	“	15569

**Annexure 6.3****Facilities for Education and Training in Applied Courses<sup>1</sup>**

000 Nos.(Year)

1. <u>Industrial Training<sup>2</sup></u>		
Apprentices from		
Industrial Establishments	227.0(2001)	
Seats in ITIs	628.0(2001)	
2. <u>Para-medical Courses</u>		
Nurses out-turn	11.4(1996)	
Mid-wives	6.3(1996)	
Health Workers Female	6.5(1996)	
Health visitors	0.5(1996)	
3. <u>Engineering</u>		
Admission at Degree level	138.4(1997)	
Admission at Diploma level	186.2(1997)	
4. <u>Medical</u>		
Admission to Degree level in		
Allopathy & Dental	17.0(1992)	
5. <u>Agriculture &amp; Forestry courses</u>		
Enrolment	45.0(1987)	
6. <u>General Education Courses</u>		
Enrolment	188.6(1999)	
7. <u>Veterinary Science Colleges</u>		
Enrolment	22.2(1999)	
8. <u>Journalism, Library Science, Social Work</u> <u>Physical Education and others</u>		
Enrolment at Graduate level	272.9(1987)	
<b>Total</b>	<b>1750</b>	

Sources: 1. IAMR Manpower profile India (2000) unless otherwise stated.

2. Ministry of Labour (Director General of Employment &amp; Training).

**Training Systems**<sup>a</sup>

System	<u>Countries</u>	Main features
<b><u>“Cooperative”</u></b> ( <i>effort of enterprises, Government and Trade Unions</i> )	Australia, Germany, Switzerland, many countries in Latin America	Pressures to undertake training resulting from strong cooperation amongst employers’ organisation, the state and trade unions
<b><u>“Enterprise-based”</u></b> *Low Labour Turnover ( <i>long tenure of employee with an enterprise</i> )	Japan	Low labour mobility, life time employment for many staff. “Long-termism” arising from absence of stock market pressure. Wage system based on seniority and enterprise-based trade unions.
*Voluntarist ( <i>Little initiative by Government or the Unions</i> )	United Kingdom, United States	Few institutional pressures on firms to provide training.
<b><u>“State-driven”</u></b> *Demand-led	Hong Kong, Republic of Korea, Singapore, Taiwan, China	State plays a leading role in coordinating the demand for and supply of skills. Operates in an open and competitive economic environment.
*Supply led	Economies in transition; many developing countries, especially in Asia and Africa	Government takes on a prime responsibility for formal sector in training institutes. Little or no pressure on employers to train.

Source: Table 3.2 of World Employment Report 1998

**Comparison of technical-vocational education; India and the Republic of Korea, 1990**

<b>India</b>	<b>Republic of Korea</b>
* Pre-vocational education is offered in limited numbers of schools and to limited number of students at primary and middle schools	* Education for introduction to the world of work, career awareness and career exploration are offered at primary and secondary school as part of a general education
* The annual intake in technical-vocational education schools is extremely low	* The share of students going to technical-vocational high schools in 1970s was about 50 per cent. In 1990 it was about 32 per cent.
* Practically all technical-vocational institutes are public	About 65 per cent of technical-vocational high schools and 84 per cent of junior colleges are private.
* There are few continuing education programmes (B-tech) for men.	* Most junior colleges offer short-term or regular evening classes for providing continuing educational opportunities to industrial workers who graduated from technical/vocational high schools. Also there are correspondence, university and open colleges for workers who graduated from junior colleges.
* Technical- vocational institutes for women are far fewer than for men.	* Girls can apply to any technical-vocational institute according to interest and competency; 46 per cent of students enrolled are female.
* Not much vernacular local literature in state of art practices in the trades. Union Ministry of Labour has set up a Society for instructional media. However for most of the modern techniques, the textbooks are imported and written in English	* All textbooks are compiled by the Ministry of Education and written in Korean.
* Technical-vocational teacher education is not systematized.	* Departments have been established at 4- year colleges or universities to produce qualified vocational teachers since the early 1960s.
* A substantial percentage of teaching posts are lying vacant.	* Technical-vocational teachers are actually oversupplied.
* Student drop-out rates from vocational training institutes are very high	* An average of 10 per cent of technical-vocational high school students drop out every year.
* Teaching-learning materials, especially raw materials for practice and audio-visual equipment, are very poor.	* The budget for laboratory practice and shopwork is adequately met by Government.
* Vocational education programmes with work experience are not operated	* Work experience for technical-vocational students is compulsory, ranging from one to six months.
*There are no close links between schools and industry barring a very limited number of exceptions.	* Schools and industries make a conscious attempt to develop closer relations. Industry provides scholarships and many have sister relationships with technical schools.

Source: World Employment Report 1998-99 for Korea. Situation in India is based on a typical South Asian Country reported in that Publication, modified in the light of initiatives taken by the Ministry of Labour, Government of India.

**INVOLVEMENT OF CENTRAL GOVERNMENT MINISTRIES/DEPARTMENTS IN TRAINING FOR  
SPECIFIC SECTORS\*\***

\*\* Report of Task Force Sub Group on Training, Annexure 2

<b>Rural Agricultural Sector</b>	<b>Non-farm Rural Sector</b>	<b>Training For Women</b>	<b>Worker Education And Labour Development Related Training</b>	<b>Training For industrial sector</b>	<b>Training for infrastructure Sector</b>	<b>Training for the services sector</b>
*Ministry of agriculture  *Dept. of biotechnology  *Dept. of non-conventional energy sources  *Ministry of rural area & employment	*Ministry of rural area & employment  *Dept. of youth affairs & sports  *Dept. of biotechnology  *Dept. of non-conventional energy sources  *Ministry of water resources  *Ministry of health	*DWCD(other than Step & Norad-assisted programme) * Women labour cell, Ministry of labour  * TREAD Programme of  Ministry of industry	* Central Board of worker education(Ministry of Labour)  *National Labour institute(Ministry of Labour)  *DGFASLI (Ministry of Labour)  *Institute of Labour Development (IFCI)  *NSTEDB (Ministry of Science & Technology)	*Ministry of Industry  *Dept. of Electronics  *Ministry of Textiles  *Ministry of Environment & Forests  *Ministry of Petroleum  *Ministry of Coal  *Ministry of Commerce  *Ministry of Supply  *Ministry of civil supplies	*Ministry of Power  *Ministry of Railways  *Ministry of Surface Transport  *Ministry of Civil Aviation  *Ministry of Urban Development	*Ministry of Civil Supplies  *Ministry of Information & Broadcasting  *Dept. of Personnel & Training  *Dept. of Culture  *Ministry of Home Affairs  *Ministry of Parliamentary Affairs

\*\* Report of Task Force Sub Group on Training, Annexure 2

**VOCATIONAL EDUCATION AND TRAINING SYSTEM IN INDIA AT A GLANCE\***

UNDER GOVERNMENT AUSPICES					OTHER THAN GOVERNMENT
Department of education, Govt. of India	DGET, Ministry of labour, Govt. of India	DWCD, Ministry of HRD, Government of India	Ministry of Rural Area & Employment	Ministry of Industry Govt. of India	Industrial Enterprises * IN-PLANT TRAINING
*Vocational Education Secondary school Lower school First degree level *apprenticeship (For graduate engineers, diploma holders and vocational school pass-out(s)) *technical education *community polytechnic project *shramik vidyapeeths	*craftsmen training scheme *Apprenticeship (trade apprentices) *Advanced vocational training scheme *Vocational Training Programme for Women *CSTRI *CSMI *CTIS *FTIs	*Step *Norad-assisted programme *Condensed courses of education & vocational training	* TRYSEM(now replace by other programmes)	*Training through DCSSI Institutes *Training under NRF *Training activities of KVIC	Private training providers *PRIVATE PROPRIETARY TRAINING
					Non-Govt. Organisations *INFORMAL SECTOR TRAINING
					Employers Organisations *SUPPORT TO INDUSTRY'S TRAINING ACTIVITIES
OTHER TRAINING ACTIVITIES ADMINISTERED BY CENTRAL AND STATE GOVT. DEPARTMENTS					

\* Report of Task Force Sub Group on Training, Annexure 1

## Issues in education and training statistics for employment<sup>1</sup>

### The data and information needs

Comprehensive statistics on education and training should cover:

- demand for education and training: indicators of the current and future demand for education and training in particular sectors in relation to changes in workplace requirements, size and structure of the population, industrial structure of the economy, and occupational composition of the labour force;
- supply of education and training: financial, human and physical resources for various types and levels of education and training covering pre-employment, enterprise, private sector and individual training;
- participation and progression in education: data on enrolment rates at various levels of education and training, on student progression and on the expected duration of schooling; participation and a progression rates should relate to pre-employment education and training and continuous education and training;
- the learning environment: data on class size, student-teacher ratios, curricula and other aspects of the classroom experience of students, and qualifications, workload and earnings of teachers;
- outcome and performance data: data on how resources are utilized in the education and training sector on the performance of those resources.

**Gaps in education and training statistics.** In most countries, the deficiencies in statistics relate to:

- the lack of clarity and uniformity in statistical concepts, definitions and classifications;
- the difficulties of measuring the knowledge, skills and attitudes (KSAs) that work demands from workers;
- problems of measuring the KSAs obtained from education and training;
- the limited coverage and poor quality of information on how the demand for education and training is met; and
- problems of measuring the impact of education and training in performance of individuals, enterprises and economies.

**The relationship between education and training and work.** There should be better understanding of what work demands from education and training, and of how work affects education and training. To answer the first question, analysts need to measure the effect of education on job and organizational performance, for which better data are needed in two areas:

- identifying KSAs produced by education, especially among those excluded from academic and skills testing;
- measures of performance in the workplace and success of individuals and their employers.

The second question involves measuring the effect of work on lifelong learning. Better data are needed in two areas:

- detailed information on individuals' work experience, including the nature of tasks performed;
- data on learning experiences from in-plant training, training by private providers and training by individuals.

### **Data Collection methods**

Longitudinal surveys provide retrospective data on employers and employees. They are useful for data on lifelong learning and on how structural change affects training decisions.

Enterprises surveys provide data on employers' formal training provisions and related expenditures, and on whether firms retain their own staff or recruit externally.

Employee surveys provide data on all forms of on-the-job training. They are best done in conjunction with enterprise (employer) surveys.

There are many other types of data collection methods, including household surveys, administrative data (public sector records), informal sector surveys, and employment and training observatories.

1. Source: World Employment Report 1998-99.

## CHAPTER 7

### **REFORM OF LABOUR LAWS**

One of the factors which is often said to restrain expansion of employment in the organised sector in India is the rigidity of our labour markets arising from the nature of our labour laws. The need for reform of the labour laws has been recognised by the government and some indications have been given of the areas where the government regards changes to be most essential. In this chapter we examine the need for changes in the labour laws and make some recommendations in this regard.

#### **1. Some Conceptual Issues**

7.2 To begin with, it is necessary to consider the reasons why employer-employee relationships need to be regulated by law in the first place instead of leaving all such relations to be determined in the market place on the basis of voluntary contracts between the employer and the employee. The reasons why labour markets need to be regulated by law to a much greater extent than goods markets are well known. Workers are not commodities; they are human beings and citizens, and individual workers are also the weaker party in any employer-employee relationship. These considerations justify legislation aimed at protecting the rights of labour in a number of areas e.g. to form unions for purposes of collective bargaining, laying down minimum obligations which employers must meet with regard to social benefits, health and safety of workers, provision of special facilities for women workers, establishing grievance redressal mechanisms, etc. This is accepted practice in both developed and developing countries, though of course the nature of the law varies considerably across countries.

7.3 Having accepted the need to regulate employer-employee relations by law, it is also important to recognise that in a market economy the impact of labour legislation on labour market conditions may turn out to be quite different from what was intended. This is because decision to hire labour is an economic decision made by employers and laws which affect particular conditions to the employment of labour affect decision made by employers on employment. For example, if the minimum wage fixed by law is too high, it raises the cost of labour intensive activities and products in the organised sector (which is where the laws are enforced) relative to other products and activities and relative to the same products produced in the unorganised sector where the law cannot be enforced. Employers in the organised sector will tend to shift to more capital-intensive activities and products which implies that minimum wages may be effectively raised in the organised sector, but at the cost of lower levels of employment than would exist otherwise in these products in the organised sector. Similarly, laws designed to provide security of employment reduce the flexibility available to employers to adjust the labour

force in response to changing circumstances and employers are likely to respond by shying away from labour using activities. Additional security for existing job opportunities is therefore obtained only at the cost of expansion of employment.

7.4 It is not easy to quantify the extent of the negative impact of labour market inflexibility. It can be argued that the extent of the negative impact is exaggerated. However a more reasonable conclusion is that it depends upon the economic environment. Rigid labour laws in a particular industry may have less impact on the level of employment if the industry is protected from competition from abroad because of high tariff walls and if technology choices and investment patterns are also controlled by the government making it more difficult for employers to shift to capital intensive products and activities. In such a controlled environment it could be argued that the high cost of labour resulting from labour market inflexibility can be passed on to consumers in the form of higher prices.<sup>10/</sup> However, the negative effect of inflexible labour laws is obviously much greater in a world in which the domestic economy is liberalised and there is also competition from imports. Burdening domestic producers with labour laws that are much more inflexible than those prevailing in other countries reduces their ability to compete effectively with new domestic entrants, who can benefit from new technology and it also makes it difficult to compete with imports. It also limits their ability to compete internationally in export markets, especially in labour intensive products, an outcome which can be very costly in terms of employment opportunities foregone as is evident if we compare Indian exports performance in labour intensive manufactures with that of China. We note that labour rigidities are not the only factors reducing India's competitiveness vis-a-vis China. There are other factors which restrict our performance which need to be addressed. However rigid labour laws is definitely one of them.

7.5 To summarise, there is no doubt that we need labour legislation to protect legitimate labour interests, but the resulting legal framework must ensure a reasonable balance between the objective of protecting the legitimate rights of employees and the equally important objective of providing a framework which would encourage efficiency and create incentives to expand total employment. The laws, as well as the way they are implemented, must allow employers to create a structure of incentives which encourage labour productivity. This includes the flexibility to restructure and adjust the labour force to adapt to changing technology and changing market conditions. The need for such flexibility has increased because liberalisation and globalisation put a premium on flexibility.

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<sup>10/</sup> It should be noted however that this is at best a static argument which ignores the dynamic efforts on employment arising from the efficiencies associated with such an extensively controlled system. Once dynamic effects are included labour market inflexibility could lead to lower growth and employment over time.

### **3. Problems with Indian Labour Laws**

7.6 India has a long tradition of labour legislation, dating from pre-independence times. A characteristic of the law is that the state is interposed between the employer and the employed in virtually every dispute. The original reason for this interposition, which dates from pre-independence times, was to enable the state to enforce labour discipline and avoid disruptions in production. In the post-independence period the emphasis shifted and the role of the state was seen primarily as protecting the rights of labour.

7.7 Since labour is included in the concurrent list in the Constitution, both the Centre and the State can legislate in this area and this has led to a multiplicity of laws. There are 47 labour related statutes enacted by the Central Government dealing with minimum wages, benefits in case of accident, death of worker, maternity, conditions of employment, dismissal, disciplinary action, formation of trade unions, industrial disputes, formation of trade unions, etc. In addition, there are a number of State statutes covering different aspects or segments of labour.

7.8 A comprehensive review of all these laws is definitely needed. They need to be simplified and brought in line with contemporary economic realities, including especially current international practice. At times, the problem is not so much with the law itself as with the lengthy almost interminable nature of legal proceedings which contribute greatly to the cost of hiring labour and the associated “hassle factor”. There are also problems with the enforcement machinery i.e. the various inspectors responsible for enforcing the law. Complaints are frequently voiced by industry that this machinery uses the extensive powers at its disposal to harass employers with a view to extract bribes, a process which imposes especially heavy costs on small entrepreneurs. Equally, an opposite view is expressed by trade unions that the labour enforcement machinery needs to be further strengthened in the interest of better enforcement of labour laws.

7.9 These issues are beyond our terms of reference and they will no doubt receive the attention they deserve from the Second Labour Commission. For the purpose of this report, we wish to focus on some specific provisions which in our view are of particular importance for employment creation which need urgent attention. These relate to the Industrial Disputes Act (1947), the Trade Unions Act (1926), and the Contract Labour (Abolition and Regulation) Act, 1970.

#### *i) Industrial Disputes Act 1947*

7.10 The most frequently voiced complaint against Indian labour laws relates to the provisions governing retrenchment layoffs and closure in the Industrial Disputes Act (1948). Until 1976, the law in this respect was not very different from the position elsewhere and employers could retrench labour if the situation warranted provided they followed the “last come first go” rule in drawing up the list of workmen to be retrenched, gave a month’s notice or pay in lieu of notice,

paid half a months wages per year of service and informed the government. The Act was amended in 1976 to add a new Chapter V.B which made it mandatory for employers employing more than 300 workmen to seek the prior consent of government before effecting retrenchment or closure of a part of the enterprise.<sup>12/</sup> The scope of this provision was further widened by an amendment in 1982 whereby all employers employing more than 100 persons were covered.

7.11 Although the legislation does not forbid retrenchment or closure but only requires prior permission of government, the Act has been interpreted in a manner which has made retrenchment virtually impossible. Furthermore, a large number of cases which were never intended to be treated as retrenchment because of court judgements have come to be viewed as retrenchment. For example, non-renewal of contract at the end of a contract period has been treated as retrenchment. Termination of employment during or at the end of a probation period has also been treated as retrenchment, even if the termination was because of failure to pass a test, which was a condition of employment. In fact, termination is now allowed only in cases of proven misconduct and this requires an elaborate process of enquiry before action can be taken.

7.12 The provision that retrenchment of labour or closure of a part of a unit requires prior provision is a unique provision of our labour markets which has the following negative effects:

- As pointed out earlier, it increases the perceived total cost of hiring labour and thus discourages investment in labour intensive products and activities. These activities remain in the informal sector which has the effect of denying effective modernisation and technological upgradation in these areas which is essential to ensure competitiveness.
- Export industries are particularly disadvantaged because exporters face highly competitive markets and need the maximum flexibility to remain competitive. Since these export production areas are all labour intensive, the loss of export possibilities also means loss of potential high quality employment.
- Foreign investors, who have the option to invest in other countries, are deterred from investing in labour intensive industries. This may be the explanation why in many other countries foreign investment has gone into many labour intensive industries with a strong export orientation creating large amounts of high quality employment based on exports, but in India foreign investment has been largely in more capital-intensive industries, oriented towards the domestic market.

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<sup>12/</sup>“Permission for closure or retrenchment has to be given by the appropriate government as defined under Chapter VB of the Industrial Disputes Act.”

7.13 Employers can of course downsize the labour force through voluntary retirement schemes usually introduced with the consent of unions. This instrumentality has been used by many companies, but it is obviously much more costly. More importantly, this instrumentality can be used more easily by capital-intensive where labour costs are a relatively smaller part of total costs. In other words, the system makes it much more difficult to labour intensive units than for capital intensive ones. Closure of a unit as a whole is of course possible through the BIFR process, but this is extremely cumbersome and time consuming.

7.14 Apart the difficulty in retrenching labour, our labour laws in practice also make it very difficult to dismiss an employee. Dismissal is technically possible for malfeasance, non-performance or indiscipline provided due process has been followed. Unlike retrenchment, no prior approval of government is needed but, in practice, dismissal can be questioned by Trade Unions raising a dispute on this matter, and this can lead to protracted litigation. The problem in this case is not so much with the law as with the judicial and extra-judicial machinery, but the net effect is that employers are often unable to maintain discipline. These problems are particularly severe for industries which are labour intensive where large number of workers are involved and also for smaller entrepreneurs who cannot afford the heavy transactions cost imposed by such inflexibility.

7.15 The inflexibility introduced by our labour laws has not gone unrecognised by the judiciary. The following quotation from the Supreme Court's judgement in the case of Excel Wear vs Union of India AIR 1979 SC 25 says it all.

“Gradually, the net was cast too wide and the freedom of the employer tightened to such an extent by introduction of the provisions that it has come to a breaking point from the point of view of the employers.... It is not quite correct to say that because compensation is not a substitute for the remedy of prevention of unemployment, the latter remedy must be the only one. If it were so, then in no case closure can be or should be allowed.... But, so long as the private ownership of an industry is recognised and governed on overwhelmingly large proportion of our economic structure, is it possible to say that principles of socialism and social justice can be pushed to such an extreme so as to ignore completely, or to a very large extent, the interest of another section of the public, viz. the private owners of the undertakings?”

7.16 Removal of these rigidities is now an urgent necessity. We recommend the following as items of for priority consideration if we are to achieve rapid growth of employment in the organised sector in the next ten years.

- a. The requirement of prior permission of government for retrenchment, layoff or closure introduces a major inflexibility in the system. One solution which has been proposed is to amend the Industrial Disputes Act to make this provision applicable only to units having more than 1000 employees. While this approach would give additional

flexibility to some units, it is clearly biased in favour of the more capital intensive areas. This is because the 1000 employee limit will cover many units in the capital intensive sectors which have relatively high investment while it will leave out units in labour intensive sectors with much lower levels of fixed investment precisely because they are labour intensive. Keeping in mind the need to provide the maximum incentive for investment and modernisation in labour intensive industries, a bolder approach is needed. We would therefore recommend a more radical step of deleting Chapter V-B from the Industrial Disputes Act completely and restoring the position prior to 1976. This was recommended in 1992 by the Inter-Ministerial Working Group on Industrial Restructuring and subsequently also by the Committee on Industrial Sickness (1993). As a balancing measure to improve protection of labour, the retrenchment compensation should be increased from the present level of half month's pay per year of service to one month atleast and possibly higher. A mechanism may also be devised to ensure that before effecting closure, the employer discharges in full the liabilities of the workers.

- b. The provisions regarding dismissal after due process need to be simplified. Section 11A of the Industrial Disputes Act allows labour courts, Industrial Tribunals to interpose the state in matters that are best left to established internal processes.
- c. The interpretation of the law to extend the provisions relating to retrenchment even to cases of termination of the service of a workman as a result of the non-renewal of a fixed term contract of employment between the employer and the workman concerned makes the law unduly rigid. A system of short-term employment contracts should be introduced under which workers hired on contract basis can be discharged at the end of the contract period without scope for dispute. In order to avoid legal challenge to this arrangement on the grounds of equal treatment with permanent labour doing the same job, provisions can be made for paying such labour a premium over the normal wage.

7.17 Another source of rigidity in our labour market arises from the provisions regarding service rules in the Industrial Disputes Act. Section 9a of the Act provides that the job content and the area and nature of work of an employee cannot be changed without giving notice to the employees of at least 21 days. In practice this provision actually requires the consent of each employee. This is applicable to all enterprises employing more than 100 workers and some States have made it applicable to firms with more than 50 employees. The requirement of a 21-day notice can present problems when units have to redeploy labour quickly to meet the requirement e.g. time bound export orders. More generally, the requirement of consent of workers means that employers cannot easily shift workers between different plants and locations, or even shift them

to do new jobs within the same plant<sup>13/</sup>. It is necessary to amend the Act to introduce much greater flexibility in this area. Restructuring and redeployment of labour, often involving retraining are essential features of a competitive industrial enterprise and India will not be able to achieve the high levels of efficiency needed in today's globalising world if such flexibility is not available to employer.

7.18 The Industrial Disputes Act provides for advance notice of a strike only in the case of industries notified as public utilities. No such notice is needed for other industries. The general practice in many countries is that some notice must be given. It would be desirable to amend the Act to make a reasonable notice mandatory in all cases. It would also be desirable to introduce the system of "strike ballot" whereby a strike can be called only if it is supported by a qualifying majority of the workers.

7.19 At present there is no time limit for filing disputes under the Industrial Disputes Act. This encourages piling up of old disputes leading to delays in courts. A time limit of 3 years should be stipulated within which a dispute could be referred for adjudication.

*ii) Contract Labour (Regulation and Abolition) Act, 1970*

7.20 The Contract Labour (Regulation and Abolition) Act was originally enacted to regulate the practice of contract labour to avoid exploitation of sweated labour. Section 10 of the Act empowers the Government to prohibit contract labour in certain situations at the discretion of the Government. In practice, the Act has been interpreted as requiring the abolition of contract labour for all services which are of a regular nature and performed on the factory premises. Two Supreme Court judgements in two different cases involving the Gujarat State Electricity Board and Air India have had the effect that employers using contract labour to perform regular services on the premises of the employer become liable to absorb such labour permanently on the rolls of the employer.

7.21 The role of contract labour has to be seen in the context of a growing trend towards unbundling of the production process into component parts and outsourcing supply of these components to different producing units. This practice will only increase with the growth of information technology. If such outsourcing leads to greater specialisation in the production of these services, with resulting gains in efficiency and reduced costs, it could stimulate a larger total demand for these services and therefore create employment. For example, outsourcing of

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<sup>13/</sup> A firm wishing to introduce new technology could face a situation in which retrenchment could be avoided if redeployment were possible but it may not be able to obtain the consent of workers to the required change in job descriptions. It should be noted that these provisions are onerous because of the difficulty in implementing retrenchment since if retrenchments were more easily implementable workers would be much more willing to accept redeployment to avoid retrenchment.

security services could make the services more cost effective and therefore encourage a greater volume of demand. An important aspect of cost effectiveness is that the service can be discontinued or contracted on a reduced scale in difficult times. The present legal provisions introduce a disincentive to expansion of contractual services because enterprises can freely outsource those services which do not have to be performed on the premises (e.g. laundry) but for those services which are of a regular nature and have to be performed on the premises (e.g. waiters serving in workers canteens, cleaning, gardening, watch and ward services, loading and unloading etc.) employers outsourcing these services run the risk that the labour used in such services may be treated as contract labour, and may have to be absorbed permanently on the payroll. This obviously discourages employers from using such services to the extent that they otherwise might have done, with the net effect of reducing total employment. Alternatively, they are forced to resort to the expedient of insisting on frequent violation of staff so that none of the staff deputed to the unit serve for the minimum period when they can claim permanent status.

7.22 The Contract Labour (Regulation and Abolition) Act therefore needs to be suitably amended to allow all peripheral activities to be freely outsourced from specialised firms, even if it means employees of the specialised firms provide the services on the premises of the outsourcing units. The legitimate interests of workers engaged in these activities should be protected by defining minimum responsibilities of the outsourcing employer for health and safety of the workers employed on his/her premises while relying on extension of appropriate labour regulation to the companies or contractors from which these services are obtained to protect other rights of such labour.

iii) *Trade Unions Act 1926*

7.23 The Trade Unions Act 1926 allows any seven workers in an enterprise to form a trade union and register it. This has led to a multiplicity of unions which makes collective bargaining more difficult. It can also become a device on the part of employers to “divide and rule”. It would be desirable to modify the Act and specify that at least 10% of the workers in an enterprise or 100 employees, whichever is less are necessary to form and register a union.

7.24 At present, the Trade Unions Act allows half the number of trade union office bearers to be outsiders. It is said that this does not encourage the development of internal union leadership which is more likely to be accountable and responsible. There is a case for amending Section 22 of the Act to reduce the number of outside officer bearers.

### **3. Parallel Reforms Needed in Other Areas**

7.25 One of the problems in pressing for labour market reforms is the political sensitivity associated with anything that may be viewed as “anti-labour”. In our view, far from being anti-labour, the proposed reforms will have the effect of expanding employment in the organised

sector thus extending the many benefits that at present accrue only to labour in the organised sector to a much larger proportion of the working population. We have noted earlier in this report that expansion in the share of organised sector employment should be an important objective of the employment strategy and it may not be possible to achieve this objective unless labour laws are made more flexible.

7.26 Apart from building consensus on the potentially beneficial effect of reform of the labour laws it is also necessary to view labour law reform as an integral part of a broader package which will put pressure on both management and labour to increase efficiency and productivity, without which we cannot achieve our growth and employment objectives. In this context, it may be noted that some of the reforms in the product markets which are needed to put pressure on managements have already been implemented, e.g. increasing competition in domestic market and opening the economy to foreign trade. However, these need to be supplemented by reforms in the area of recovery of bank debts, bankruptcy procedures and corporate governance, all of which would put management under greater pressure to perform.

7.27 A market economy seeking high levels of efficiency must be able to put pressure on managements to improve efficiency and reduce costs, and impose penalties on those that are non-performing. Unfortunately the Indian financial and legal system does not achieve this objective. The lack of an effective system for enforcing recovery of debts through speedy bankruptcy procedures, with mechanisms that would allow inefficient firms failing to service loans to be speedily liquidated or taken over by new management. The present legal framework, consisting of the Sick Industrial Companies Act under which sick companies are referred to the BIFR, was originally designed to provide sick companies with assistance to allow them to restructure and be rehabilitated thus forestalling closure and loss of employment. It has proved to be almost completely ineffective. It has often provided unscrupulous managements with an extended period during which all recovery action is stayed and the time gained in the process is often used to siphon funds out of sick companies making them unrevivable. This ensures that companies that run into difficulties are inevitably driven into terminal sickness. At times promoters may even perceive a benefit in pushing a company into sickness.

7.28 We recommend that SICA be repealed and replaced by a new law modeled on the US Chapter 11 procedure under which default on debt payments due can trigger action by creditors. Promoters would then be given a minimum time period to negotiate a voluntary financial restructuring with creditors or bring in new capital or management, failing which creditors should be able to enforce speedy closure. It could be stipulated in the above process that dues of the workers would be fully discharged before effecting closure. This would introduce much needed market discipline on promoters which is visibly lacking today. It would also make it much easier to accept the need for labour market reforms as part of a balanced package in which both labour

and management are seen as accepting the compulsion of the shift to a more competitive situation.

7.29 Another issue that has to be addressed in parallel with efforts at labour market reforms is the need for a social safety net in the form of unemployment compensation or insurance in the event of retrenchment. Industrialised countries, and even some developing countries, are able to provide employers with greater flexibility to hire and fire labour precisely because labour retrenched in the process of restructuring has the benefit of unemployment insurance.

7.30 A move to a system of unemployment insurance in the organised sector is in our view a desirable institutional development which should be expedited. The scheme should be strictly self-financing, based on compulsory deductions of contributions from wages, with a corresponding contribution from the employer and involving no liability on the part of the government. Employees retrenched or otherwise becoming unemployed should become eligible to receive support at a fraction (say 50%) of the wages drawn at the point of unemployment. The period for which such support would be available would depend upon the length of contributory service of the employee and the age. The extent of the contribution to be made by the workman and the employer for the effective functioning of such a scheme would have to be worked out on an actuarial basis. The employers contribution would be a tax on labour employed by them but it would give employers a degree of flexibility which they do not have at present.

7.31 It is important to emphasise that an unemployment insurance scheme of the type described above should be financed entirely from contributions by the employed and employers and it would also have to be compulsory. It would require statutory authority to introduce and would have to be regulated by the Government or some other suitable statutory agency. The feasibility of introducing such a scheme in the organised sector should be expeditiously examined.

## CHAPTER 8

### SUMMARY OF RECOMMENDATIONS

The strategy for employment generation recommended by the Task Force is based on intervention in five major areas:

- Accelerating the rate of growth of GDP, with a particular emphasis on sectors likely to ensure the spread of income to the low income segments of the labour force.
- Pursuing appropriate sectoral policies in individual sectors which are particularly important for employment generation. These sector level policies must be broadly consistent with the overall objective of accelerating GDP growth.
- Implementing focused special programmes for creating additional employment of enhancing income generation from existing activities aimed at helping vulnerable groups that may not be sufficiently benefited by the more general growth promoting policies.
- Pursuing suitable policies for education and skill development, which would upgrade the quality of the labour force and make it capable of supporting a growth process which generates high quality jobs.
- Ensuring that the policy and legal environment governing the labour market encourages labour absorption, especially in the organized sector.

The individual recommendations for action in each of these areas presented in Chapters 3 to 7 are summarised below :

#### **1. Policies for Accelerating Growth**

8.2 Continuation of economic growth at an average of about 6.5% will not yield a significant improvement in the employment situation, especially the extent of open unemployment. The expected annual addition to the labour force is about 8.7 million per year over the next ten years. We need to accelerate GDP growth to a range between 8% and 9% to achieve our objective of generating enough additional employment to provide productive employment opportunities for the expansion and to ensure a sufficient tightening of labour markets in general to improve the quality of existing employment.

### Increasing Aggregate Investment

8.3 To accelerate GDP growth to 8% and more requires a combination of a substantial increase in the rate of investment and an increase in efficiency of capital use (i.e., a reduction in ICORs). The rate of investment will have to be raised by at least 4.5 percentage points of GDP. This has to be financed by some combination of an increase in domestic savings and an increase in the foreign resource inflow.

8.4 Expanded levels of foreign direct investment could yield an additional 1.5 percentage points of GDP. The remaining 3 percentage points of GDP would have come from increased domestic savings. Since public sector savings have deteriorated by this amount over the 1990s an increase in public sector savings of this order must be attempted.

8.5 The proposed improvement in public savings will require concerted efforts at reducing the revenue deficit in both the Centre and the States. This will require action on improving tax revenue realisation, reducing subsidies and raising user charges, trimming the government bureaucracy and eliminating losses in public sector enterprises by closing down loss making public sector enterprises or handing them over to the private sector. These are difficult decisions but we cannot expect the increase required in public savings if action is not taken.

8.6 The fiscal measures described above can be expected to have a negative effect on private savings as a percentage of GDP because they will reduce private disposable income but private consumption may not fall by the same amount. Private savings are therefore likely to be lower than they otherwise would be. Special efforts will therefore be needed to ensure that the private savings rate is maintained as a percentage of GDP, which implies an increase in private savings as a percentage of disposable income. It is particularly important to encourage long term contractual savings by the household sector. Reforms in the insurance sector are particularly important for this purpose.

### Increasing Efficiency

8.7 The proposed acceleration in GDP growth cannot be achieved by the increase in investment envisaged above unless efficiency in all sectors is simultaneously increased. The most effective instrument to ensure efficiency is competition, which in today's world must be both domestic and international.

8.8 The reforms implemented since 1991 have created an environment where competition is much freer. However the process is still incomplete and needs to be extended to many sectors where controls are still extensive e.g. sugar, pharmaceuticals, dairying, coal mining etc.

8.9 The progress made thus far in opening the economy to international competition is commendable but it remains incomplete because of relatively high import tariffs. The process must be carried to its logical conclusion to achieve the stated target of lowering our import tariffs to the levels prevailing in East Asia over a three year period. The phased plan for tariff reduction promised in the Budget Speech should be released for discussion by September 2001.

#### Infrastructure Development

8.10 The state of our infrastructure is a critical constraint on our ability to achieve faster GDP growth. Our rural areas lack basic economic and social infrastructure for agricultural and other rural development e.g. a well functioning system for irrigation and water management and conservation, rural roads to provide basic connectivity, a reliable extension service to disseminate best agricultural practices, and adequate and reliable supply of electric power. Most of the infrastructure development in rural areas will have to come from the public sector and is therefore critically dependent on improvements in the fiscal position, especially of the States.

8.11 Infrastructure for the rest of the economy including power, roads, ports, railways and telecommunication also needs massive improvement to support 8% growth. It is possible to attract private investment in some of these areas. Given the severe resource constraints in the public sector, it is essential to evolve policies which will encourage public-private partnership in these areas. However the difficulty in devising the right policy framework for attracting private investment should not be under-estimated.

#### Finance and Banking

8.12. The development of a strong financial sector, encompassing both commercial banking and the capital markets, is a critical pre-condition for achieving rapid growth. The cost of credit from the banking system is still quite high with real interest rates varying between 6% and 10%. Much of this is not due to the inefficiency of intermediation but because of the high rates which banks have to pay for mobilizing deposits. This reflects the pressure on domestic interest rates arising from the high fiscal deficit and reduction in the fiscal deficit is therefore essential to move to lower interest rates.

8.13 There is also considerable room for improving the efficiency of the banking system. Competition among all categories of banks, including public sector banks, Indian private sector banks and foreign banks will lead to an improvement in the quality of banking sector services and this competition needs to be encouraged by following suitably liberal bank licensing policies which will allow qualified private banks (Indian and foreign) to expand their presence.

8.14 The banking system does not effectively service the needs of the informal sector and yet this sector is expected to provide much of the expansion in employment expected over the next ten years. Banking practices and procedures need to be reviewed to enable banks to adopt a more pro-active approach to lending for economically viable activities in the informal sector. The

cooperative credit structure can play a major role in extending credit to the informal sector. This structure has become very weak in most States and there is an urgent need to strengthen the cooperative credit system. This may require legislative changes, which would free cooperatives from what at present is pervasive government control.

8.15 An important mechanism through which banks can meet the credit needs of the informal sector is by financing self-help groups (SHGs), which provide micro-credit for informal sector activities. Significant progress has been made in this area in recent years and the effort needs to be extended.

## **2. Sectoral Policies for Employment Promotion**

### Agriculture and Allied Activities

8.16 There is an urgent need to increase public investment in agriculture especially in irrigation and water management. The ability to do so is severely constrained by resource availability at the state level. Part of the solution lies in bringing about a general improvement in the resources position of the States. However this can be supplemented by restructuring the existing allocation of resources to agriculture by reducing subsidies and increasing user charges, (e.g. in power, irrigation and fertiliser) and devoting the resources thus mobilised to increasing public investment in this sector.

8.17 There is an urgent need to extend the benefit of decontrol to agriculture.

- The Essential Commodities Act should be repealed.
- Restrictions on marketing of agricultural produce through Agricultural Produce Marketing Committee (APMC) should be removed as they act as an impediment to development of a national market.
- Forward trading should be allowed in agricultural products.

8.18 Present laws regarding leasing of land should be liberalised to allow marginal land owners to lease out land to others to create operationally viable holdings. Degraded and wasteland, after detailed delimitation, can be taken out of the purview of tenancy laws and agro-companies allowed to buy, develop, cultivate and sell this land.

8.19 Agricultural exports are typically labour intensive, and their potential has not been adequately exploited in the past. Steps are needed to increase agricultural exports to support the diversification of agriculture, which is an important element in achieving faster agricultural growth in future. Export controls on agricultural products should be abolished and other instruments used to achieve domestic price objectives which are sought to be achieved through export controls.

## Food Processing

8.20 Development of this sector is an ideal way to diversify the rural economy and expand high quality employment in non- agricultural sector. The generalised improvements in infrastructure such as assured electric power in rural areas, better road connectivity etc, discussed earlier will help this sector. In addition, the following sector specific policy initiatives are required.

- i) The active involvement of larger industrial units, including MNCs and cooperatives where possible is essential. This is because successful food processing requires establishment of a chain from marketing at the one end to farming at the other. Major national and international food processing companies should be approached to ascertain the nature of the problems which limit their activities at present.
- ii) There is a multiplicity of regulations related to food processing which needs to be integrated into a single Food Act and a single Food Regulatory Authority.
- iii) An urgent review of the Prevention of Food Adulteration Act is required as its administration is extremely restrictive to the growth of this sector.
- iv) Government should focus on R&D, information dissemination and development of rural industrial estates like food parks.

## Small Scale Industry

8.21 SSI is an important source of employment as well as an important incubator for entrepreneurship. However, the objective of healthy development of this sector at this stage requires a shift in policy from protection to promotion. Some of the general policy measures needed for faster growth especially improvement in infrastructure, banking services or labour law reforms are crucial for the development of the small scale sector. In addition, the following policy support measures are especially important :

- i) The benefits currently given to Small Scale industries should be extended to small scale enterprises in non-industrial sector, including those in services.
- ii) Government should provide resources aimed at upgrading infrastructure for industry clusters where there is sufficient agglomeration of SSI units. A Centrally sponsored scheme for this purpose could be considered.
- iii) State Governments must take concerted steps in consultation with industry representatives, to reduce the burden of inspector raj on small scale enterprises

8.22 The policy of reservation for SSI production only cannot be sustained in the face of the new import regime and the proposed lowering of tariffs. It is, therefore, necessary to implement

a phased process of de-reservation which can be completed over the next four years. A scheme for such a phased dereservation is outlined in para 4.33 of the Report.

### Employment in Services Sector

8.23 Almost 70% of the total employment opportunities generated over the next ten years is likely to be in the services sector. Some of the sector policy issues which constrain growth of services in critical sectors where growth could lead to faster growth in employment and improvement in the quality of employment are mentioned below in brief.

### Travel and Tourism

8.24 India's potential for both domestic and international tourism is greatly under-utilised. Expansion in international tourism could contribute a substantial expansion in high quality employment opportunities in the years ahead. The following policy initiatives are especially important from the point of view of developing tourism :

- i) Hotel room capacity in major Indian tourist centres (especially of the mid-price variety) is not adequate to support an expanded flow of tourists. Local authorities must take steps to earmark available land for hotel construction and expedite grant of necessary permissions for setting up of good quality hotels with reasonable price.
- ii) Existing policy on bilateral air agreements needs to be urgently reviewed to ensure sufficient expansion in airline seat capacity to India. This capacity should not be limited by Air India's inability to utilise its bilateral rights.
- iii) Combined effects of luxury tax and expenditure tax on hotels makes Indian hotels unduly expensive. These taxes need to be moderated
- iv) Visa regime needs to be liberalised to allow tourists to obtain a tourist visa on arrival at the airport, as is the practice in many important tourist destinations.

### Information Technology

8.25 Information Technology holds out very promising prospects for creation of high quality employment for skilled workers in software development and in a wide range of IT enabled services. The current slowdown in the IT sector is a negative short term development, but it should not weigh too heavily in evaluating medium term prospects. Government policy must give high priority to ensure that the environment facing this sector remains conducive to growth. High quality telecommunications and domestic and international connectivity with adequate band width is critical.

8.26 The government should continuously monitor developments in this sector and especially our performance against those of our emerging competitors internationally, to identify constraints in our competitiveness and the need for policy modifications if any.

### Housing and Real Estate Development and Construction

8.27 Real Estate development, because of the construction activity it involves, is one of the most labour using sectors and can generate a large number of work opportunities. However, laws governing land development and rent control have pushed the market underground and restricted growth of this sector. The repeal of the urban land ceiling Act is a welcome step. However, State Governments must also follow the action of Central Government to free the land market. The Rent Control Act constitutes another major disincentive to construction of property for rent. Repeal of this Act is likely to unleash a construction boom.

8.28 The basic legislative steps mentioned above, would have to be accompanied by other policy reforms such as :

- i) Ending the monopoly of urban development authorities like DDA over city land
- ii) Freedom of conversion of rural land into urban usage
- iii) Laws to facilitate private development of townships and Estates
- iv) Reduction in Stamp duty on transfer of property
- v) In the construction sector, present bias against large construction firms should be removed

### Road Transport

8.29 The road transport sector, at present, is dominated by small operators. This is a sector where considerable economies of scale exists. Emergence of modern and large transport companies will not only improve the efficiency of the sector but also provide better working conditions to the workers in this sector and in associated road side activities like repair services and hotels etc.

8.30 Development of high quality roads and establishment of mechanised truck terminals are necessary to make this possible. Also, the system of granting licenses and permits by State governments and the tax system to which road transport is subjected to needs to be reviewed as these militate against the development of an organised trucking industry.

### Distributive Trade

8.31 Retail trade in India is characterised by small establishments and modernising retail trade involving large department stores is often considered detrimental to the employment objective. This may not be necessarily true. The switch to modern retailing will certainly improve the quality of employment in the sector. It will also help to develop effective supply chains linking producers with potential consumers and provide quick feedback to producers on consumer tastes.

This can bring many potential producers into the market without having to worry about marketing their output.

8.32 Distorted rental markets, ban on FDI in this sector and certain other regulations such as Essential Commodities Act have held back the development of modern retailing. Legislative changes in these areas recommended in the Report will help remove these barriers.

#### Education and Health Services

8.33 There is considerable scope for expansion of employment in provision of these services. Though much of the expansion is expected to come from public sector, there is also room to consider a combination of public and private sector. The experience of Kerala clearly demonstrates the role private sector can play in improving the reach of educational facilities. State Governments should encourage the role of private sector by replacing controls with a modern regulatory system that provides right atmosphere for private participation.

#### New Emerging Services

8.34 In addition to service sector activities discussed above, a host of new activities are likely to gain significance in future which will provide new opportunities for employment. An illustrative list of such services is given in the Appendix to chapter 4.

### **3. The Role Of Special Employment Programmes**

8.35 Special employment programmes play an important role in providing supplementary employment to vulnerable sections of the population, especially in the seasonal lean period in rural areas. This helps in mitigating extreme poverty, and also to keep rural to urban migration under check. We, therefore, recommend that these schemes should continue, but their limitations as revealed in numerous evaluation should also be appreciated.

8.36 The functioning of the self-employment component in the restructured SGSY programme needs to be re-oriented as much as possible towards programmes supporting self-help groups with the assistance of NGOs with a good track record. Until there is clear evidence that the traditional IRDP type assistance produces results, it may not be desirable to expand the resources devoted to these types of schemes.

8.37 In view of the likely expansion in educated new entrants in the labour force in future, and the fact that self-employment has to play a major role in providing employment opportunities for this group, an expansion of PMRY scheme is desirable. However the provision of subsidy in such schemes is much less important than is generally made out. What is essential is that credit should be available to finance viable projects and that there should be effective means of training and providing advice on technology and marketing.

8.38 The KVIC programme needs to be restructured. The khadi programme suffers from some basic infirmities; costs are high and the product at the lower end of the quality range is not able to

compete with mill-produced fabric available in the market. The village industries component however appears to have better prospects.

8.39 The recently launched REGP programme of KVIC, which is operated through the commercial banks, benefits from better financial supervision, and the production units are managed by entrepreneurs, as distinct from social workers. It therefore promises to offer a higher level of earnings per worker than in the erstwhile form of the KVIC programme. However, an objective evaluation of performance will be possible only after 2 to 3 years.

8.40 Wage employment programmes should be focused as much as possible on maximizing the development impact on rural areas through the creation of durable assets in the area of economic and social infrastructure. The restructuring of JGSY to give primacy to the creation of durable assets is therefore a step in the right direction. There is an urgent need to invest in such infrastructure, as the existing deficiencies in infrastructure especially in rural areas are glaring, and given the scarcity of resources it is desirable to use available resources for such investments even if the direct employment created is slightly lower. We would also recommend that in view of the fact that EAS has been universalized to all districts, there is merit in merging the EAS and the JGSY into a single employment programme in which funds devolve to panchayats.

8.41 Our ability to expand the total volume of resources devoted to special employment programmes in the years ahead will be limited because resources are severely constrained and there are several other demands on the system. Besides, a large expansion of the size of these programmes is difficult to justify given the mixed experience thus far. We would recommend that an independent assessment of the impact of these programmes as recently restructured should be commissioned by the Planning Commission before there is any increase in total resource allocation. Pending such a review, the total resources devoted to these programmes should be held constant at current levels though resources could be shifted from programmes perceived to be less effective to those perceived to be non effective on the basis of current monitoring and evaluations.

#### **4. Labour Force Skills and Training**

8.42 The system of specialised higher technical education needs to be strengthened if our technical manpower is to avail of the opportunities in the international labour market. I.I.Ts have demonstrated the capability of our manpower, if screened properly and then trained. I.I.Ts should be established in the each state. A role to private sector should be provided. Restrictions in the existing policy on charging of fees should be removed.

8.43 The present system of vocational training is inadequate to meet the skill requirements of rapid growth. A broad based effort is needed to reform the system. The existing ITI system will need to be restructured and additional resources provided to improve its output. Industry should be involved to a much greater extent in the management of ITIs and for this purpose, selected

ITIs chosen for joint management with industry should be converted into autonomous bodies receiving government funds with a management structure in which industry representatives can be formally inducted on the governing boards and the institutions are also given sufficient autonomy to become effectively board managed.

8.44 It is necessary to review the present policy whereby training in Government ITIs has traditionally been provided free. It may be desirable to allow ITIs to charge fees, at least for the more specialised courses. A case can also be made for considering a small levy on companies to be contributed to a skill development fund which could be used to fund ITIs. The coverage of the levy, its amount and guidelines for the use of the fund would have to be worked out. To make industry perceive the benefits of the fund, 2/3<sup>rd</sup> of the collection in each district should be used to fund ITIs in the district. Industry associations should also have a voice in deciding allocations.

8.45 A Centrally sponsored scheme or an aid institution like the UGC should be set up for the ITI's. Barring certain exceptions, the ITI's have a physical environment, which is much inferior to the engineering college, diploma awarding polytechnics and the medical colleges. For the latter, there are UGC type schemes for up-gradation of buildings and equipments and even to run special training courses. Some parallel mechanism is needed for ITIs.

8.46 The problem of lack of demand for vocational training relative to higher level education, could be mitigated if graduates of ITIs and other vocational training institutions are eligible for entry into polytechnics and +2 level medical and engineering courses. Entry criteria and course curriculum should be redesigned for this purpose.

8.47 Development of entrepreneurship skills among the new self employed require "Mentors". Under the CII's entrepreneurship development project viz., Bhartiya Yua Shakti Trust, the loan recovery rate is 94%, indicating strong economic viability. Such experiments need to be replicated on a much larger scale

8.48 All enterprise, irrespective of size and status, small industries and tiny enterprises should be brought under the purview of Apprentices Act. However the payment of stipend to apprentices taken in by small establishments should be voluntary, and not mandatory, under the Apprentices Act. The law should also be amended to remove any obligation to provide employment to apprentices or even to give them preference.

8.49 The Department of Technical Education should be restructured to focus on vocational education and vocational training. A parallel institution is needed in State Governments to focus on vocational education in schools. At State Government level, Vocational Education, Vocational Training and Technical Education should be the responsibility of a single Department.

8.50 Private sector involvement in training has been discouraged because of highly subsidized training services provided by the public sector. There is also an undesirable nexus between public

owned training delivery institutions and placement for jobs in public sector, excessive regulation in extending recognition to the institutions. This should change.

8.51 The Central Government should completely withdraw from delivery of vocational training services. It should foster autonomous professional bodies that give recognition to training institutes by declaring them as eligible training providers. The Government's role should be one of monitoring the institutions that set up standards of training, and evaluating and assigning rating to the private training establishments.

## **5. Reform of Labour Laws**

8.52 India's labour laws have evolved in a manner which has greatly reduced the flexibility available to employers to adjust the labour force in the light of changing economic circumstances. In a globalised world, persisting with labour laws that are much more rigid than those prevailing in other countries only makes us uncompetitive not only in export markets but also in domestic markets. Some changes in the laws are therefore necessary if we want to see rapid growth.

8.53 The most important change needed is to abolish the requirement of prior permission of government for retrenchment, lay-offs or closure by deleting Chapter VB from the Industrial Disputes Act. This would restore the position to that prevailing prior to 1976. As a balancing measure, to improve protection of labour, the retrenchment compensation should be increased from ½ months pay per year of service to one months pay per year of service. This was recommended in 1992 by the Inter-Ministerial Working Group on Industrial Restructuring and subsequently also by the Committee on Industrial Sickness (1993).

8.54 The following other changes are also recommended:

- The provisions regarding dismissal after due process need to be streamlined. Section 11A of the Industrial Disputes Act which allows labour courts, Industrial Tribunals to interpose the state in matters that are best left to established internal processes.
- A system of short term employment contracts should be introduced under which workers hired on contract basis can be terminated at the end of the contract period without scope for dispute. In order to avoid legal challenge to this arrangement on the grounds of equal treatment with permanent labour doing the same job, provisions can be made for paying such labour a premium over the normal wage.
- The Industrial Disputes Act should be amended to make a reasonable notice mandatory in all cases. It would also be desirable to introduce the system of "strike ballot" whereby a strike can be called only if it is supported by a qualifying majority of the workers.

- At present there is no time limit for filing disputes under the Industrial Disputes Act. This encourages piling up of old disputes leading to delays in courts. A time limit of 3 years should be stipulated within which a dispute could be referred for adjudication.
- The Contract Labour (Regulation and Abolition) Act needs to be suitably amended to allow all peripheral activities to be freely outsourced from specialised firms, even if it means employees of the specialised firms provide the services on the premises of the outsourcing units.

**TASK FORCE ON EMPLOYMENT OPPORTUNITIES**

The Task Force on Employment Opportunities was set up by the Planning Commission in January, 1999 vide Notification No. P-12099/15/98/LEM/ERS dated 21 January, 1999 under the chairmanship of Shri.Montek Singh Ahluwalia, Member, Planning Commission. Following are the terms of reference of the Task Force:

- (i) To examine the existing employment and unemployment situation in the country.
- (ii) To suggest strategies of employment generation for achieving the target of providing employment opportunities to ten crore people over the next ten years implying strategies for providing employment opportunities to one crore people per year on an average
- (iii) To consider any other matter related with or incidental to the above Terms of Reference.

II. Members of the Task Force were notified as under:

- 1. Prof. Pravin Visaria,  
Director, Institute of Economic Growth.  
University Enclave, New Delhi
- 2. Prof. Nirmala Banerjee,  
Centre for Studies in Social Sciences, 10, lake Terrace,  
Calcutta.
- 3. Prof. K. Sundaram,  
Delhi School of Economics, University of Delhi,  
New Delhi
- 4. Prof. Subhashish Gangopadhyay  
Indian Statistical Institute, 7, S.J.S Sansanwal Marg,  
New Delhi
- 5. Prof. S. Mahendra Dev,  
Indira Gandhi Institute of Development Research,  
Gen. Vaidya Marg, Goregaon(E), Mumbai
- 6. Secretary General,  
FICCI, Federation House,  
Tansen Marg, New Delhi

## A.2.

7. Director General, Confederation of Indian Industries,  
23, Institutional Area,  
Lodhi Road, New Delhi
8. Secretary,  
Department of Small Scale & Agro & Rural Industries,  
Udyog Bhavan,  
New Delhi
9. Secretary, Ministry of Labour,  
Shram Shakti Bhavan, Rafi Marg  
New Delhi 110 001
10. Secretary,  
Department of Rural Employment &  
Poverty Alleviation,  
Krishi Bhavan.,  
New Delhi
11. Sr. Economic Adviser, Department of Economic Affairs,  
Ministry of Finance, North Block  
New Delhi.
12. Adviser (LEM), (Member-Convener)  
Planning Commission  
New Delhi 110 001

### III. The Task Force invited to all its deliberations the following:

1. Dr. S. P. Gupta  
Member, Planning Commission  
New Delhi
2. Prof. S. R. Hashim (upto February 2000)  
Member (Rural Development), Planning Commission  
New Delhi
3. Dr. N.C. Saxena  
Secretary, Planning Commission,  
New Delhi
4. Shri R. P. Sinha  
Pr. Adviser (LEM), Planning Commission  
New Delhi

### A.3

5. Prof. Ashoka Chandra,  
the then Director, IAMR,  
New Delhi
6. The Registrar General of India  
Office of the RGI,  
New Delhi

and benefited from their perception of nature of employment problem.

IV. The Task Force set up the following Sub Groups:

<b><u>Sub Groups on</u></b>	<b><u>Chairman</u></b>	<b><u>Convenor</u></b>
1. Labour Force & Employment Projection	Prof. Pravin Visaria Director, IEG	Smt. Padmaja Mehta Director (LEM) Planning Commission
2. Skill Development & Training	Prof. Ashoka Chandra Director, IAMR	Shri R.P. Upadhyay Joint Adviser (LEM) Planning Commission
3. Special employment Programme	Prof. S. R. Hashim Member (RD) Planning Commission	Smt. Padmaja Mehta Director (LEM) Planning Commission
4. Sectoral Policies	Dr. Amit Mitra Secretary General FICCI	Shri T.S. Krishnan Director (LEM) Planning Commission

V. The deliberations of the Task Force were formulated at the following meetings:

1 <sup>st</sup> Meeting	16 <sup>th</sup> February, 1999
2 <sup>nd</sup> Meeting	26 <sup>th</sup> April, 1999
3 <sup>rd</sup> Meeting	13 <sup>th</sup> July, 1999
4 <sup>th</sup> Meeting	11 <sup>th</sup> August, 1999
5 <sup>th</sup> Meeting	11 <sup>th</sup> October, 1999
6 <sup>th</sup> Meeting	28 <sup>th</sup> January, 2000
7 <sup>th</sup> Meeting	12 <sup>th</sup> September, 2000
8 <sup>th</sup> & Final Meeting	24 <sup>th</sup> May, 2001

VI. The eighth and final meeting of the Task Force authorised the Chairman to submit the report of the Task Force to Deputy Chairman, Planning Commission.

#### A.4

(TO BE PUBLISHED IN THE GAZETTE OF INDIA, PART-1, SECTION-1)

NO. P-12099/15/98/LEM/ERS  
PLANNING COMMISSION  
(LEM DIVISION)

#### MEMORANDUM

Subject: Task Force on “Employment Opportunities” creation & terms of reference of

In pursuance of the decision taken by the Government to the effect that ten crore people should get employment opportunities over the next ten years implying that one crore people should get employment opportunities every year, a Task Force on “Employment Opportunities” is hereby set up.

The composition of the Task Force will be as follows:

Shri. Montek Singh Ahluwalia Member, Planning Commission, Yojana Bhavan, Parliament Street New Delhi 110001	Chairman
Prof. Pravin Visaria, Director, Institute of Economic Growth. University Enclave New Delhi 110 007	Member
Prof. Nirmala Banerjee, Centre for Studies in Social Sciences, 10, lake Terrace, Calcutta. 700029	Member
Prof. K.Sundaram, Delhi School of Economics, University of Delhi, New Delhi 110 007	Member
Prof. Subhashish Gangopadhyay Indian Statistical Institute, 7, S.J.S Sansanwal Marg, New Delhi 110 018	Member
Prof. S.Mahendra Dev, Indira Gandhi Institute of Development Research, Gen. Vaidya Marg, Goregaon (E) Mumbai. 400065	Member
Secretary General, FICCI, Federation House, Tansen Marg, New Delhi	Member

## A.5

Director General, Confederation of Indian Industries,  
23, Institutional Area, Lodhi Road,  
New Delhi 110 003

Member

Secretary,  
Department of Small Scale & Agro & Rural Industries,  
Udyog Bhavan,  
New Delhi

Member

Secretary, Ministry of Labour,  
Shram Shakti Bhavan, Rafi Marg  
New Delhi 110 001

Member

Secretary,  
Department of Rural Employment &  
Poverty Alleviation,  
Krishi Bhavan.,  
New Delhi

Member

Sr. Economic Adviser,  
Department of Economic Affairs,  
Ministry of Finance, North Block  
New Delhi.

Member

Adviser (LEM), Planning Commission,  
Yojana Bhavan, Parliament Street,  
New Delhi 110 001

Convener

2. The terms of reference of the Task Force will be as follows:
  - 2.1 To examine the existing employment and unemployment situation in the country.
  - 2.2 To suggest strategies of employment generation for achieving the target of providing employment opportunities to ten crore people over the next ten years implying strategies for providing employment opportunities to one crore people per year on an average
  - 2.3 To consider any other matter related with or incidental to the above Terms of Reference.
3. The chairman of the Task Force may set up sub groups, if necessary, for undertaking any in-depth studies and formulation of any proposals.
4. The Task Force may co-opt any official / non official experts / representatives of other agencies if required.

## A.6

5. The expenditure of the members on T.A / D.A in connection with the meeting of the Task Force will be borne by the parent - Department / Ministry / Organisation. The expenditure, if any, in respect of non-official members will be borne by the Planning Commission as per rules and regulations of T.A. / D.A applicable to Grade - I officers of Government of India.

6. The Task Force will submit its final report to the Planning Commission by 31st July, 1999.

Sd/-

(ARVIND KUMAR)

DIRECTOR (ADMINISTRATION)

### O R D E R

Ordered that a copy of the Memorandum be communicated to all concerned and that it be published in the Gazette of India for general information.

Sd/-

(ARVIND KUMAR)

DIRECTOR (ADMINISTRATION)

To

The Manager,  
Govt. of India Press,  
Faridabad ( with a copy of Hindi version)

No.P.12099/15/98-LEM/ERS

New Delhi, Dated, January 21, 1999.

Copy forwarded to : All Members of the Task Force

Copy also to

1. PS to Prime Minister
2. PS to Deputy Chairman, Planning Commission
3. PS to MOS (P&PI)
4. PS to Cabinet Secretary
5. PS to Cabinet Secretary
6. PS to Member Secretary, Planning Commission
7. PS to Member(MSA), Planning Commission
8. PS to Principal Adviser (Adm), Planning Commission
9. PS to Adviser(LEM), Planning Commission

Copy also to All Heads of Divisions in Planning commission

Sd/-

(ARVIND KUMAR)

DIRECTOR (ADMINISTRATION)