



## **GROWTH- EMPLOYMENT DEBATE: SOME EMERGING TRENDS AND CHALLENGES**

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*The relationship between employment and growth has been the subject matter of intense debate in the recent period. Two thought processes are emerged in this context. One group of economists propound the World Bank – IMF ideas who emphasis the economic reforms with its instruments i.e. liberalization, privatization and globalization which could raise the rate of growth of GDP, and this school unemployment and poverty removal are treated as the corollaries of the growth process. In the second school, it has been argued that growth per se is not likely to result in a pro- poor growth to take care of employment and poverty problem, and that the content of growth with emphasis on policies which help the poor to become a part of the development process, rather than a residuary beneficiary, is important.*

*The experience of the last two decades in India showed that employment opportunities created were inadequate in spite of rapid growth. The general perception in the country is that although GDP growth has accelerated, it has been not been accompanied by a commensurate increase in employment leading to a worsening in the employment situation in the post reform period. These considerations have led to a demand for greater attention to the employment objective and improving their incomes. Moreover, this challenge has been become more intense because the change in the age structure of population would lead to a much faster growth of population in the working age group than the entire population. Projection shows that the share of working age population (15-59) in India is likely to increase from 58 per cent in 2001 to 63 per cent in 2011. This demographic change will provide challenges and opportunities for Indian Economy. In this background, the purpose of this paper is to critically examine the interrelationship between employment growth and economic growth particularly after implementation of economic reforms.*

### **Introduction**

The relationship between employment and growth has been the subject matter of intense debate in the recent period. Two thought processes are emerged in this context. One group of economists propound the World Bank – IMF ideas who emphasis the economic reforms with its instruments i.e. liberalization, privatization and globalization which could raise the rate of growth of GDP, and this school unemployment and poverty removal are treated as the corollaries of the growth process. (Ahluwalia, 2001; Bhagwati, 1993; Srinivasan, 2000)

In the second school, it has been argued that growth per se is not likely to result in a pro- poor growth to take care of employment and poverty problem, and that the content of growth with emphasis on policies which help the poor to become a part of the development process, rather than a residuary beneficiary, is important. [ S.P. Gupta (2000), Sheila Bhalla (2000), Mahendra Dev (2008), Martin Ravallion (1997, 1999, 2002), R.Radhakrishnan (2002).

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In this background, the purpose of this paper is to critically examine the interrelationship between employment growth and economic growth particularly after implementation of economic reforms. This paper also examines some important determinants which are critical for growth-employment relationship.

The paper is classified into different sections, starting from Introduction followed by review of literature. In third section growth rates of employment find a brief description. The main theme of the paper, i.e. 'Relationship between Growth and Employment' is explained in the next section. A causal explanation entitle 'causes of mismatch between employment and economic growth' is discussed under two sub themes, first 'employment elasticities & economic growth' and second, 'labour productivity & economic growth' is the penultimate section of this paper. In the last section conclusion and some recommendations are prescribed in the light of above explanations.

### **Review of Literature**

The literature on relationship between growth and employment has provided varied result during pre and post reform period. Mainly two woks are explained here because they are most relevant to justify the nexus between growth and employment.

Bhaumik (2003) has examined this relationship on the basis of NSSO data of 38th, 50th and 55th round and observed that the relationship between growth rates of total NSDP and the number of unemployed has been negative and statistically significant during pre economic period. The same result is also observed even when we regress the growth rates of unemployed on the sectoral NSDP. Further, the relationship between the growth rates of unemployed and per capita NSDP also appears to be negative and statistically significant. These results imply that during the pre- reforms period, the States that registered a significant decline in the growth of the unemployed were the ones that achieved higher growth of NSDP. The situation changes drastically during the post reforms period. During this period, the relationship between growth rates of unemployment and that of total NSDP are found to be positive. However, this relationship is not very significant. This implies that higher positive annual growth rates of NSDP do not necessarily mean lower unemployment growth rate. But the study observe that relationship between growth rates of the unemployed and those of sectoral NSDP, the same appears to be positive and statistically significant in the case of primary sector. The same positive trend was observed when we considered growth rates of

NSDP from secondary sector as an explanatory variable. It is also disturbing to note that, unlike the situation during pre reforms period, the growth rates of unemployed and per capita NSDP is positive (though statistically insignificant) during the post reforms period. These results implies that in the post reforms period the States that experienced higher growth rates of NSDP are not necessarily the ones that also recorded higher rates of decline in the number of unemployed. On the contrary, the positive relationships between the two in the post reform period, imply that the higher rates of economic growth experienced by several States of India during the post-economic liberalization period have failed to reduce the unemployed.

The study clearly shows that “there was significant increase in the number of unemployed in all India in the post reform period. While the number of the unemployed in the country actually declined during the period, 1983 to 1993-94 (from 21.61 million to 20.24 million), it increased to a level of 26.43 million in 1999-2000. The increase in the number of unemployed in the post reform period has been visible irrespective of regions (rural/urban) and the sex of the labour force. However all India picture reveals that the segments of the labour force representing rural areas suffered relatively more in terms of increasing unemployment during the post reform period in India.”

The Special Group, headed by S.P.Gupta presented its report in 2002. On the basis of the NSS data, it estimated the number of unemployed to be of the order of 26.58 million in 1999-2000, as against 20.13 million in 1993-94 (CDS basis). The growth rate of unemployed works out to be 4.74 per cent per annum for 1993-94 to 1999-2000, as against a decline in the number of unemployed during 1983 to 1993-94. This only underlines the fact that unemployment rate which was 8.33 per cent in 1983 declined to 5.99 per cent by 1993-94, but increased to 7.32 in 1999-2000. The special Group Report mentions:- “The present rising unemployment is primarily an outcome of a declining job creating capacity of growth, observed since 1993-94. The employment growth fell to 1.07 per cent per annum (between 1993-94 and 1999-2000) from 2.7 per cent per annum in the past (between 1983 and 1993-94) I spite of acceleration in GDP growth from 5.2 per cent between 1983 and 1993-94 to 6.7 per cent between 1993-94 and 1999-2000.” Explaining the situation, the special Group Report mentions: The employment elasticity of the 80s and early 90s of 0.52 went down to 0.16 in the late nineties. The organized sector’s employment generating capacity came down to near zero and in the public sector has been negative in most cases. This is primarily because:

1. The present policy of shedding excess labour that this sector is carrying in order to meet the growing market completion, often known as rightsizing;
2. The trend towards increasing capital intensive per unit of output; and
3. The pattern of growth moving in favour of capital intensive sectors.”

Employment in the organised sector has been hardly 8.34 per cent, of which public sector accounts for 5.77 per cent and private sector only 2.57 per cent in the total employment generated in 1999-2000.

### **Growth Rates of Employment**

The growth rate of employment declined sharply from 2.04 per cent per annum during the 10 year period 1983 to 1993-94 to barely 0.98 per annum during the period 1993-94

to 1999-2000. The Task Force on Employment Opportunities admitting deceleration in employment growth mentions: “This sharp deceleration in the growth of employment has naturally been the focus of much of a ‘jobless’ variety.” (Planning Commission (2002), Report of Special Group on Targeting Ten Million Employment Opportunities, p.2.) This implies that the growth rate in employment is less than the growth rate in labour force and this resulted in an increase in the unemployment rate.

Data are grouped in to primary, secondary and tertiary sectors. In the primary sector, there is a deceleration of growth rate of employment during post- liberalization period (1994-2000). In the secondary sector, the combined effect of manufacturing and construction resulted in a modest improvement in the growth rate from 2.90 per cent in the pre-liberalization to 3.14 percent in the post liberalization period. However, in the tertiary sector, there is deceleration in growth rate of employment to 2.42 per cent in post liberalization period as against 3.53 per cent in pre-liberalization decade.

**Table 1 : Growth of Employment by Sectors**

Industry	Annual Growth Rate (%)				
	1983	1993-94	1999-2000	1983-94	1994-2000
Primary	208.99(69.0)	245.16(65.5)	239.83(60.4)	1.60	-0.34
Secondary	41.66(13.8)	55.53(14.8)	66.91(16.8)	2.90	3.14
Tertiary	52.11(17.2)	73.76(19.7)	90.26(22.7)	3.53	2.42
Total Employment	302.76(100)	374.45(100)	397.00(100)	2.04	0.98

*Notes: 1. Growth rates for the primary sector have been worked on the basis of data by the Task Force on Employment Opportunities.*

*2. Figure in percentage give the percentage of the sector in the total employment during the respective year.*

*Source: Obtain from data provided by the Planning Commission (2001), Report of Task Force on Employment Opportunities, Table 3.2.*

As mentioned above, there are concerns regarding employment generation in the post-reform period. The growth rate of rural employment was around 0.5 per cent per annum between 1993-94 and 1999-2000. The overall employment growth declined from 2.04 per cent during 1983-94 to 0.98 per cent during 1994-2000. Much of the decline in the growth was due to development in two sectors viz., agriculture and community social & personal services. These two sectors accounting for 70 per cent of the total employment have not shown any growth during 1990s. Similar trends can be seen for growth rates of employment based on current daily status.( S.Mahendra Dev,2008,pp179)

Following table, as constructed and analyze by Rudra Dutta(2007) Shows two patterns in employment generation may be noticed- the first pattern pertains to the periods 1983 to 1993-94. In this pattern, nearly 51 per cent of additional employment came from primary sector, 19 per cent from secondary sector and 30 per cent from the tertiary sector. In the

second pattern that developed during 1993-94 and 1999-2000, nearly 50 percent of the additional employment was generated in the secondary sector and 73 per cent in tertiary sector; however, in the agriculture sector, there was a fall in employment by nearly 23 per cent. The post- liberalization period thus appears to be one, which neglected agriculture. The virtual stagnation of the agricultural sector in terms of output and deceleration in terms of employment appears to be the distinguishing feature of this pattern.

**Table 3 : Share of Different Sectors in Increase of Employment (Million)**

Period I	1983	1993-94	Increase During(1983-93)	Share in Increase (%)
Primary	208.99	245.16	36.17	50.5
Secondary	41.66	55.53	13.87	19.3
Tertiary	52.11	73.76	21.65	30.2
Total	302.76	374.45	71.69	100.0
Period II	1993-94	1999-2000	Increase During(1994-00)	Share in Increase (%)
Primary	245.16	239.83	-5.33	-23.6
Secondary	55.53	66.91	11.38	50.4
Tertiary	73.76	90.26	16.50	73.2
Total	374.45	397.00	22.55	100.00

*Source:- Compiled and Computed from the data given in Previous Table.*

61st Rounds of the NSS has provided us information about the State of unemployment in 2004-05 and has also provided comparative analysis with previous rounds. The following points emerge:-

1. Compared to 1999-2000, during 2004-05, the unemployment rate of the usual principal status remained about the same in rural or urban areas for males, but increased by 2 percentage points for females. This implies that there was no improvement in the usual principal status employment.
2. In terms of current daily status, the unemployment rate was 2 percentage points more for females in both the rural and urban areas. This indicates deterioration in female employment. In terms of males, CDS rate increased from 7.2 per cent in 1999-2000 to 8.0 per cent in 2004-05 for rural areas. However, there was a slight change in male CDS rate in urban areas from 7.3 per cent to 7.5 per cent. The upshot of this analysis is that the major problem of the Indian Economy is under employment and not so much as open unemployment. (Rudra Dutta, pp70)

### **Relationship between Growth and Employment**

Facts show that in spite of high growth of more than 6% of GDP, employment growth was less than 1 percent in 1990s. At State level, as shown in the statistics given by Bhattacharya and Sakthival(2004), we can see different combinations. In the post reform period, Andhra

Pradesh, Goa, Himanchal Pradesh, Karnataka, and West Bengal, recorded low growth of employment inspite of high growth in GSDP. On the other hand, Assam, Bihar, and Punjab recorded reasonable growth in employment inspite of relatively low growth in GSDP. Orissa registered low growth in both GSDP and employment. One of the reasons for the low growth in overall employment was due to low growth in agriculture employment in many States.

Growth rates of employment at the level of States with the latest data of NSS show that Andhra Pradesh recorded the lowest employment growth in the post reform period. States like Himachal Pradesh, Kerala, MP, Orissa, Rajasthan, Tamil Nadu, and West Bengal showed lower growth of employment in the post reform period as compared to all-India.

One of the paradoxes of the Indian development experience relates to slow structural transformation in the economy. Although the share of agriculture in GSDP has been falling, the decline in the share of employment has been slow. However, structural transformation has happened in four States i.e. Kerala, Tamil Nadu, West Bengal and Punjab- the share of agriculture in employment in being less than 50% in these States. On the other hand, the share of agriculture in employment in eight States was more than 60 per cent. It may take some more years for these States to achieve structural transformation. (See S. Mahendra Dev, 2008, pp. 190)

It implies that the demographic pressure on land have been increasing significantly in India. With its Share of 22 per cent in GDP, agriculture has to bear the burden of more than 55% of workers. Consequently, there is a mismatch between growth and employment. Growth is occurring in services and industry but they are not able to absorb employment. NSS Report No 515 shows that in the year 2004-05 among the rural workers, 66.5 percent of male workers are still primarily in agricultural activity. For female workers, the share of agriculture was 83 per cent.

### **Causes of Mismatch between Employment and Output Growth**

The performance of employment in relation to output growth is the outcome of a range of factors. Amit Bhaduri (2008) argues that it is mainly influenced by:

- a. Sectoral growth rate;
- b. Sectoral employment elasticities, and
- c. The initial sectoral weights in output and employment composition.

### **Employment Elasticities and Economic Growth**

Employment elasticity is a useful device for assessing employment implications of economic growth. Since labour absorptive capacity is not uniform across sectors, sectoral elasticities can throw better light on employment potential than aggregate estimates of employment elasticity.

The Planning Commission of India reports an almost steady decline in employment elasticities in both agriculture and manufacturing. The former declined from about 0.64 for the period from 1972-73 to 1977-78 to 0.01 for 1993-94 to 1999-2000, while for the same periods the latter declined from 0.55 to 0.33. The overall elasticity declined from 0.61 to

0.16 (Nayyar,2006). Another estimate comparing the pre-reform period 1983-84 to 1987-88 to the post-reform period from 1993-94 to 1999-2000 tells a similar story of decline in the aggregate elasticity from 0.62 to 0.16.(Dasgupta and Singh, 2005).

During the period 1994-2000, despite an average output growth of nearly 8 per cent, employment growth has been only 1.02-1.07 per cent, implying output elasticity of employment of about 60 per cent had elasticity of only 0.02, while the corresponding elasticity for industry was 0.38. in services, which is the fastest growing sector in the economy, contributing 51 per cent of the output, but only 22 per cent of the employment in 2002, the elasticity was 0.35(Papola,2005)

Ashok Mathur(1996), when analyzing employment potential at the sectoral level, given two concepts of sectoral employment elasticities emerge. This arises on account of the fact that sectoral 'overall' employment elasticity for a sector, which shows sectoral employment change in response to aggregate income changes, can be decomposed into two components. These components are, in the first place, sectoral 'own' employment elasticity, which reflects response of employment to that sector's income change, and secondly, sectoral income elasticity which measures that sector's income shift in relation to overall income growth.

For the period 1983-94, national level aggregate employment elasticity emerges to be 0.31, but there are substantial sectoral variations in it, as may be seen from following Table.

**Table 3: All India Sectoral Elasticities(1983-94)**

	Primary	Secondary	Tertiary
'Overall' employment elasticity	0.21	0.42	0.63
'Own' employment elasticity	0.45	0.26	0.52
Sectoral income elasticity	0.46	2.37	3.83

*Source: Obtain from Ashok Mathur (1998) 'Employment, Equity, and Growth, The Indian Journal of Labour Economics, Vol.41,No.1, Jan-March,1998, pp40.*

As we can see the 'overall' employment elasticity is lowest in the primary sector (0.21), at about half the figure for the secondary sector, 'own' employment elasticity of the primary sector (0.45) is well above that of secondary sector(0.26) and nearly as high as that in the tertiary sector (0.52). This is essentially a reflection of the very high intrinsic labour absorptive capacity of primary sector.

But its 'overall' employment elasticity emerges as the lowest because its sectoral income response to economic growth (0.46) is only a fraction of the sectoral income response of the secondary sector (2.37) or of the tertiary sector (3.83).However, the relatively high employment absorptive capacity of the primary sector, with 'own' employment elasticity at 0.45, is at the cost of productivity per workers, which is lowest in the primary sector.

Hence it was noted that a high overall employment elasticity does not necessarily imply a sizeable reduction in the incidence of poverty. But high employment response in the case of secondary and tertiary sectors does appear to help in reducing the extent of poverty and non employment.

### **Labour Productivity & Economic Growth**

The output weights can be converted into employment weights by looking at sectoral productivity differential ratios e.g., service producing 51 per cent of output with 22 per cent of labour force implies services has a productivity of 2.32 times the national average. Agriculture contributing about 26 per cent of output with 60 percent labour has a productivity 0.43 times the national average, and industry has a productivity 1.28 times the national average.( See in detail Amit Bhaduri (2008), Growth and employment in the era of globalization: Some lessons from the Indian experience, ILO Asia- Pacific Working Paper Series, pp3.).

Decline in employment growth in agriculture has been sharper than in other major sectors because the labour productivity differential has increased steadily over time between the agriculture and non agriculture sectors (industry and services). The slow growth of agricultural employment is not primarily due to high labour productivity growth in agriculture as compared with the other sectors. On the contrary, it is due to overcrowding without provision of adequate livelihood in agriculture.

**Table 4 : Labour Productivity as a Proportion of National Average**

	1987-88	1993-94	1999-2000
Primary Sector	0.51	0.48	0.41
Secondary Sector	1.53	1.18	1.69
Tertiary Sector	2.28	2.05	2.09

*Source: CSO.*

It is also a valuable lesson of the recent Indian high growth experience that despite high output growth, non-agricultural sectors are unable to provide enough jobs to make a dent in the overcrowding that exists in agriculture. Thus, we might suggest that the non-agricultural sectors in India are registering high growth in output and labour productivity with an aggregate employment elasticity of around 0.30, which is too low to lift average livelihood in agriculture. The consequence is an increasingly overcrowded, low productivity agricultural sector with a miserable rate of employment growth and no route of escape to the non agricultural sector.

This indeed is the central problem that the Indian economy faces and simply pushing for still higher growth will not make this problem go away. Using standard national income statistics of the distribution of GDP and employment by sectors, the above table computed to illustrate how an almost ‘scissors crisis’ is developing between labour productivity in the primary, secondary and tertiary sector, all considered as ratios of the national average labour productivity.

### **Conclusion and Some Recommendations**

This paper tries to explain the mismatch between growth and employment through various concepts of employment elasticity and labour productivity. In this background various policy recommendations may be suggested.

1. Economic Transformation in favour of Secondary as well as Tertiary sector is required



for positive correlation between growth and employment.

2. S Mahendra Dev(2008) suggest that labour productivity has been low in agriculture. Urban areas have their own problems of demographic pressure. As a result, rural non-farm sector becomes an escape route for agricultural workers. In order to increase wages in agriculture and shift the workers to more productive areas, rural diversification is required.
3. We should adopt bottom up approach for employment growth. As Amit Bhaduri(2008) suggest “we should not think of employment as the consequence (endogenous variable) of GDP growth and reject as unhelpful the notion of ‘growth first and employment later’. This will not succeed in the context of most of the least developed countries, no matter how the growth is financed. We have to reverse the strategy instead to one of ‘employment first, with growth as its consequence’.
4. Growth in employment and growth in labour productivity together add up to growth in GDP. Hence, so long as we are able to raise the employment growth rate without a compensating fall in labour productivity growth, the economy would continue to grow faster. This should be central criterion for raising or accelerating the growth rate through expansion of employment financed by public expenditure, in contrast to viewing labour productivity as a cost reducing device.

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