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Budget thrust needed on sectors that can immediately push job creation

CRISIL Economy Quick Byte

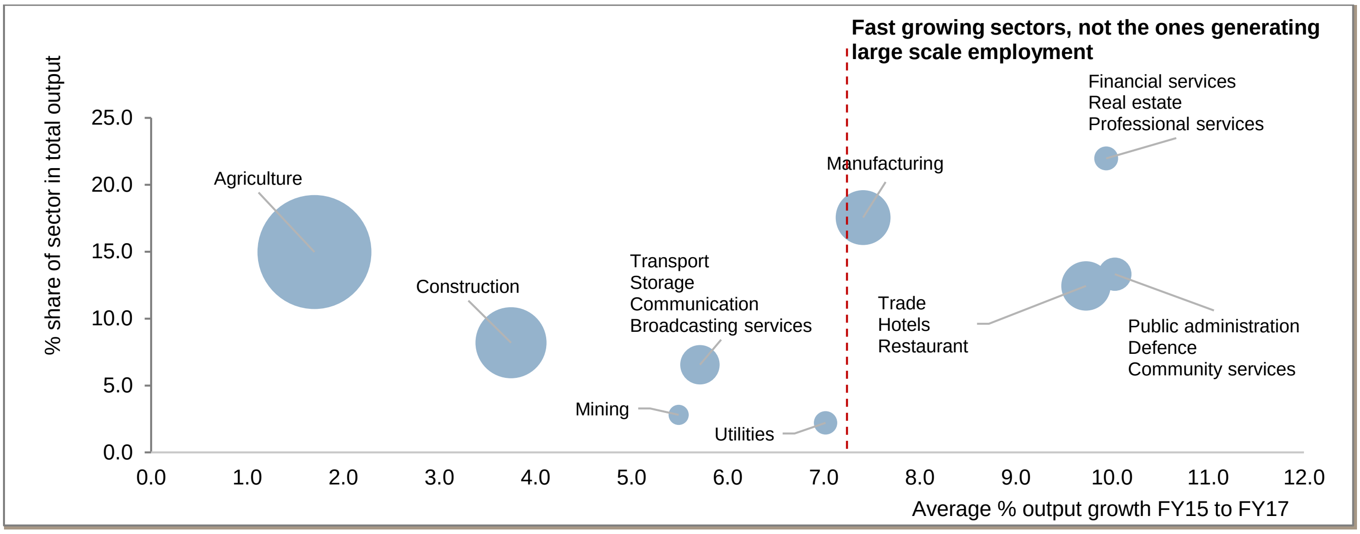
January 2017

Sectors growing fast are not the ones generating large-scale employment

The last three years have seen a slow-but-steady uptick in economic growth, but it is likely that this hasn't been accompanied by commensurate job increase in employment. The sectors that grew fast have low labour intensity and share in overall output.

That's the predicament at a time when ~1.5 million people are entering the labour force every month, with most of them seeking jobs. Trouble is also brewing on another flank: the rapid adoption of technology, especially automation, which is reducing the labour-intensity of many an industry. Policies will, therefore, have to support sectors with large job growth potential such that, despite slipping labour intensity, absolute employment continues to increase. Additionally, the policy focus should also be in preparing the youth for new job opportunities.

Fast growth, few jobs



Note: Size of bubble represents labour intensity of the sector, Red dotted vertical line represents average GVA growth during these years

Source: CSO, NSSO, CRISIL Research

Sectors with high potential to absorb labour have grown at a slower pace

In the past three years, three sectors have grown way faster than GDP: 1) financial services, real estate and professional services; 2) public administration, defence, and community services, and, 3) trade, hotels and restaurants. Of these, only the trade, hotels and restaurants sector is labour intensive, requiring about 6 workers to produce Rs 1 million worth of output. But its share in total output is low at ~12%. In contrast, other fast-growing sectors, despite having a larger share in output, have low labour intensity of 2-3. And sectors that have higher labour intensity – such as agriculture with 30, construction 13 and manufacturing 7 – have been undershooting overall GDP growth. Growing at 3-3.5% per year, agriculture is unlikely to become India's growth engine. In fact, people need to be moved out of overcrowded agriculture to high growth and high productivity sectors.

Reasons why despite a pick-up in GDP growth, fewer employment opportunities are likely to have been created in the past three years. The gorilla in the room can be quelled only through policies that support sectors with large employment potential -- despite falling labour intensity. Policy support can also can be in the form of easier labour laws, providing physical infrastructure, mitigating power shortages, and facilitating reasonable terms of credit and taxation laws.

Policy support will need a mix of both, short term and long term focus

Push to road sector and low cost housing has always helped in times of crisis

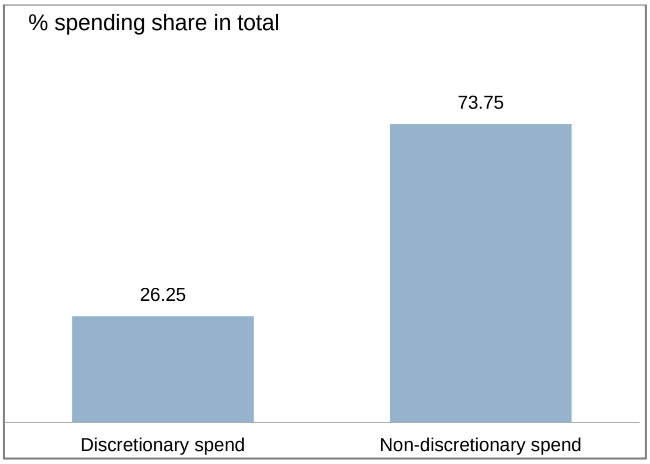
For immediate benefits, the forthcoming Union Budget should chose to support sectors hit hardest by demonetisation, and those that are more labour intensive, such as the small and medium enterprises segment, and also construction.

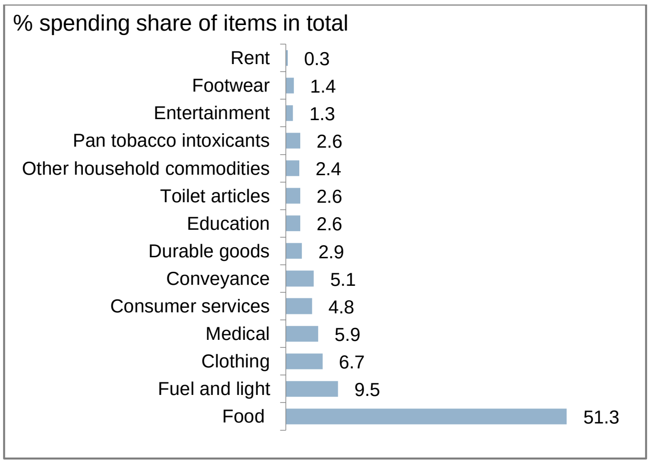
For the government, pushing the roads sector has always helped in times of crisis. When monsoon failed in 2002, the thrust on National Highway Development Project helped create rural jobs. And in drought-hit 2009, the expansion of the National Rural Employment Guarantee Scheme (NREGA) ensured rural jobs were aplenty. In 2012, too, when rains were inadequate and poorly distributed causing drought-like situation in certain states, NREGA came to the rescue. In the last two years, too, the current government has sharpened focus on rural road construction through the Pradhan Mantri Gram Sadak Yojana (PMJSY). The last Budget saw a 25% on-year increase in allocation, over and above a 52% increase in the fiscal before, and also fast-tracking completion of road projects. Continued increase in government spending on rural roads, given its high employment intensity, can be a consumption kicker.

In the similar vein, thrust on low cost housing will also help create jobs.

We studied the consumption patterns of workers benefiting from the government's rural roads program and found that about 26% of average spend is on discretionary items. This assumes that other than food, rent and clothing, spending on medical expenses and fuel and light is also relatively inelastic and therefore termed non-discretionary in nature. Of the discretionary spends, workers tend to allocate a larger portion of their spending for consumer services such as communication, tailoring and conveyance. Significant spending is also reported on durable goods (new and second hand), education, paan, tobacco, intoxicants, toiletries and household commodities. The sectors producing them, therefore, can expect some boost from the Budget if it gives a push to construction activity.

Average spending pattern of a rural roads worker





Note: Average income of worker of a NREGA worker is taken and assuming that is the floor for a PMGSY worker's wages, the corresponding consumption pattern of that fractile group is analysed using NSSO data for 2011-12

But long-term focus must be on alleviating structural constraints to employment creation

For longer-term benefits, though, policies should have a three-pronged approach;

i. Reduce overemployment in agriculture by providing opportunities outside of the farm sector

ii. Push the manufacturing sector by emphasising on 'Make for India', along with improving export competitiveness, and,

iii. Design policies to push growth in labour-intensive services sectors such as trade, medical and education services, community and social and personal services.

These efforts will have to be complemented with education and skill development of youth. A CRISIL study had found that four manufacturing sectors – textiles, food products, non-metallic mineral products and transport equipment – can drive employment creation over time, provided structural issues facing them are resolved. Meanwhile, the services sector can also contribute to the employment drive. The nature of activity in a large part of the services sector is such that it makes technology substitution for productivity gains is either difficult or will take time. Specifically, sectors such as education and health, trade, hotels and restaurants, and community, social and personal services could potentially be large employers. But here, the supportive role played by education and skill development will be critical

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Last updated: April 2016

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