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IMA

**Conclusions Paper**

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**THE EMPLOYMENT CONUNDRUM**

*Adit Jain, Editorial Director, IMA India*

## THE EMPLOYMENT CONUNDRUM

***Headline statistics suggest that gross total employment has fallen...***

Over the last year, IMA India has hosted multiple briefing sessions across forums and cities, where the issues of ‘jobless growth’ and ‘rising unemployment’ have consistently come up. This has possibly been based on recent press reports and television debates, which cite certain headline statistics suggesting a fall in employment between 2011-12 and 2015-16 compared to vigorous growth in earlier years, since 2004-05.

***...but full-time employment is actually rising – and at a faster pace***

IMA’s research team has examined this ‘conundrum’ in some detail, and found that the popular notion is a simplistic one, and the real picture is perhaps more positive. This paper presents our analysis.

***All of India’s employment statistics are survey based, relying on the NSSO and Labour Bureau***

### **Methodology and definitions**

India has no hard data on employment. Very few people pay taxes and there is no system to collect payroll data, which is the norm in most other countries. India therefore has to rely on survey-based statistics. Primarily there are two sources for this. First, the National Sample Survey Organisation (NSSO), which undertakes a comprehensive survey but only every five years; second, the Labour Bureau, which publishes a more frequent, annual survey.

***Figures from the two sources often do not match; internal conflicts exist too***

Strangely, despite similar definitions and with a sizeable sample, exceeding interviews with 100,000 households, figures from the two sources do not always match. Worse, there are internal conflicts such as state totals not adding up to the national count. The only way to enable any sort of comparison is through recalibrations and adjustments, which the study did.

***Both are published with large time lags and the findings are thus outdated***

It would be logical to assume that the most comprehensive survey would be the national census. However, this is undertaken only once in a decade. Its findings are released 5-6 years later and are therefore practically useless. Consequently, IMA’s research used NSSO data for 2004-05 and 2011-12 along with Labour Bureau data for 2011-12 and 2015-16.

***Adults above 14 years of age, seeking work constitute the ‘workforce’***

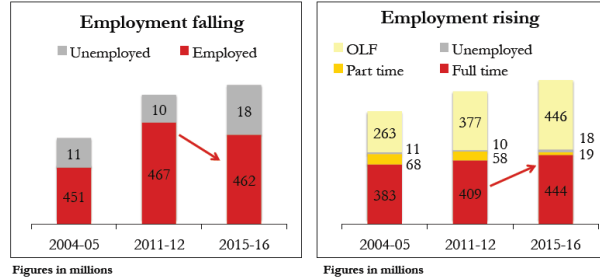
For the purposes of this exercise, ‘workforce’ is defined as adults above the age of 14 years, seeking work. This would include those currently employed, either with a full-time job or part-time, as well as the unemployed. Everybody else is defined as being ‘out of labour force’ (OLF). This includes students, home-makers, pensioners, invalids and really anybody not looking for a job. Therefore, the workforce plus OLF constitutes the adult population of the country.

***Full-time jobs actually rose from 409 million to 444 million from FY12 to FY16***

**Gross employment hides more than it reveals**

The way the statistics are commonly presented makes no distinction between full and part-time employees. Therefore, even those who may have worked for a few weeks in a year are counted as having a job.

Based as they are on such definitions, there is a risk of over-estimation, in terms of both



employment and unemployment. According to the official estimates, employment fell from 467 million in 2011-12 to 462 million in 2015-16. During the same period, the figure for the unemployed rose from 10 million to 18 million.

***Between FY12 and FY16, about 31 million people either shifted to full time jobs or stopped working***

The comparative sums for the period between 2004-05 and 2011-12 are 451 million employed and 11 million unemployed, leading to the deduction that things have worsened in the more recent time period. However, a more complete break-down of the population into full time, part time, unemployed and OLF, leads to different conclusions. The number of people with proper, full-time jobs actually rose from 409 million to 444 million in this four-year period, i.e., 35 million new full-time jobs, or 8.6 million a year, were created. Against this, 26 million jobs were created in the previous 7-year period, with the total going from 383 million to 409 million, at an annual accretion of just 3.7 million jobs. The comparison is thus turned on its head.

***Big changes in the part-time unemployment numbers...***

What has really changed is part-time employment. In 2004-05, there were an astonishing 68 million part-time workers. They were effectively bloating the employment count, since many of them may have worked for no more than a few weeks in the year. By 2011-12 that number dropped only slightly to 58 million. The real change happened thereafter, with part-timers falling to 19 million by 2015-16. This prompts the question: Where did these 39 million people end up? Since unemployment increased by only 8 million during this period, it would imply that the remaining 31 million people either shifted to full-time jobs or, more plausibly, chose to stop working, a conclusion substantiated by the swell in the OLF population from 377 million to 446 million.

***...led perhaps by the fact that students and home-makers no longer felt compelled to seek part-time work***

The fact is, many part-timers were really students who should not have been working in the first place or home makers doing extra jobs possibly to make ends meet. Their exit from the workforce would suggest that the earlier compulsions no longer apply, presumably because incomes have risen and non-working options have become feasible or preferable. It could conversely be argued that they exited because those jobs were no longer available. This

may well be true in some cases but is unlikely to explain the majority of the shift. A scenario in which full-time jobs are being created at more than twice the earlier rate while proxy indicators are robust, cannot logically be reconciled with a large-scale evaporation of part-time jobs.

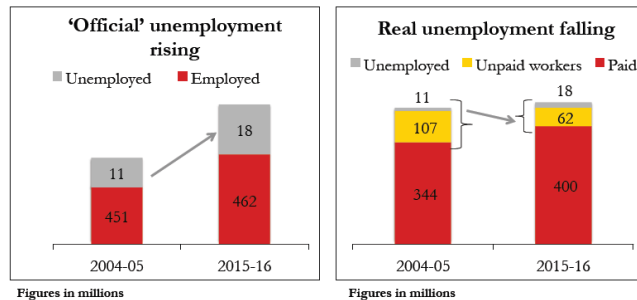
***Agriculture remains the biggest employer***

In terms of sectors, agriculture remains the largest employer in the country. However, aggregates have dropped over the ten-year period FY05 to FY16 from 253 million to 211 million. There has been a commensurate rise in sectors such as construction, trade and other services. This should also be construed as good news since agriculture is the least productive sector of the economy and services, the most. Over the ten year period, the share of employment in services has risen from 32% to 44%.

***Ten years ago, a quarter of the workforce was unpaid – 107 million people treated as employed; this is now down to 62 million***

**What about unemployment?**

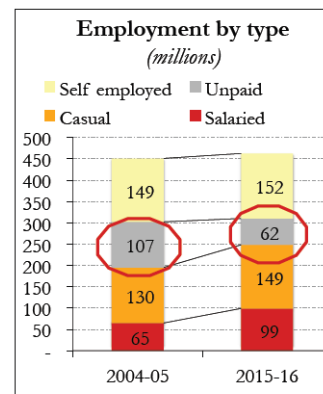
Official unemployment, as previously mentioned, increased from 11 million to 18 million between FY05 and FY16. Here again, the headline figure does not tell the full story. The fact is, there were 107 million unpaid workers in



workers in 2004-05, which incorrectly are counted as 'employed'. These are basically family members working in household enterprises, 'kirana stores' or farms, for no salary or wages. Their inclusion within the ranks of the employed is really an artificial suppression of the unemployment scores.

***Between FY05 and FY16, official unemployment increased, but effective unemployment decreased from 118 to 80 million***

Many analysts have in the past called out this figure for what it really is – disguised unemployment – yet the statistics continue to be compiled in the same way. Over the ten year period from 2004-05 to 2015-16, this population has fallen drastically to 62 million. Therefore, effective joblessness, including both unpaid workers and the officially unemployed, is down from 118 million to 80 million. This, from any benchmark, should be construed as a positive development and quite the opposite of what the superficial figures tell us.



***A fall in NREGS numbers indicate a fall in real unemployment***

What further substantiates the argument is an analysis of figures on the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS). If unemployment were truly rising, the MGNREGS numbers should have responded commensurately. Instead, in the four year period between FY12 and FY16, enrolment actually declined from 75 million to 68 million. Even more remarkably, only 10% of those enrolled actually completed the 100 days of work that the scheme offers. One explanation for this might be that since MGNREGS is now on the Aadhar platform, duplicate and ghost accounts may have been removed. Still, this cannot explain the sheer magnitude of the shift. A more plausible explanation would seem to be that real unemployment is actually falling, as alluded to above; therefore, the number of people requiring MGNREGS support has also dropped.

***A new payroll analysis based on social security statistics highlights gross new job creation: 5.8 million in FY17 and 7 million in FY18***

**Ghosh & Ghosh**

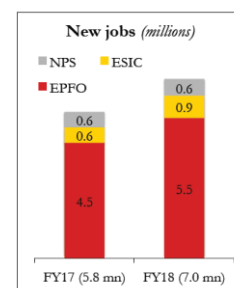
A recent study by two economists, Professor Pulak Ghose of IIM-Bangalore and Dr Soumya Kanti Ghosh, Chief Economist of the State Bank of India, use social security databases to conclude that in FY2017-18, approximately 7 million formal sector jobs have been created. In fact, the study received such publicity having gone counter to the grain of previous thinking that Prime Minister Narendra Modi himself referred to it during his recent engagements with industry.

***Data from EPFO, ESI and NPS***

The authors used data from the following sources: the Employees Provident Fund Organisation (EPFO), containing 55 million validated records of subscribers from companies with over 20 employees; the Employees State Insurance corporation, with 12 million validated records of subscribers from companies with over 10 employees; the Government Provident Fund, consisting of 20 million validated records of subscribers; and finally, the New Pension Scheme (NPS<sup>1</sup>), with 0.5 million subscribers, which mostly replaces GPF and applies to Government employees that entered service after January 2004.

***A jump in the payroll stock***

Messrs Ghosh & Ghosh concluded that the formal sector payroll stock as of March 2017 was 90.2 million. New job creations were 5.8 million in 2017 and about 7 million in 2018, on a gross basis (i.e. without netting off retirements). The methodology they adopted was conservative and rigorous, to say the least.



<sup>1</sup> The New Pension Scheme is based on defined contributions, replacing GPF, which works on defined benefits.

***Conservative assumptions and rigorous de-duplication to reduce double counting and the shift from unorganised to organised***

The analysis, based on assumptions that contain a strong downward bias, ensured that the study would not over-estimate employment generation. Some of these assumptions are as follows. First, only those in the age band of 18-25 making new contributions were counted as additions to the workforce, thus minimising duplication due to shifts in employment from the unorganised to the organised sector. Moreover, only employees making continuous contributions and whose information was complete in every sense, without a single data point/field missing, were counted as being employed. Approximately 42 million records that did not satisfy these conditions were excluded. Third, since the EPFO covers companies with 20+ employees, incremental data from ESIC was taken only for those with under 20 employees, with a view to avoiding duplication in job creation. Finally, approximately 30 million formal sector workers were excluded from the study because they are not covered by social security databases. These include professionals such as chartered accountants, lawyers, doctors, architects and other consultants; police forces; teachers and school staff.

It would be logical to assume that these numbers would also be rising, and should add to both the national stock of jobs as well as incremental employment. From a statistical perspective, the methodology adopted by the Ghosh study appears conservative from every benchmark. Most importantly, it is based on payroll data, and is therefore free of estimation errors. It would be logical to assume that the robust trend demonstrating rising employment within the formal sector would lead to a consequential increase amongst the ranks of the self-employed or indeed those in more informal engagements.

***Mudra scheme provides refinance, credit guarantees, monitoring and supervision of micro lending***

### **Mudra**

A constant gripe of small businesses is their inability to gain access to credit. Whilst this applies to small and medium enterprises, its impact is even more profound in the context of cottage industries and micro enterprises. In order to fill the funding gap, the Government launched Mudra, a scheme to ensure higher flows of credit to small and micro enterprises. Under the programme, lending is carried out by banks, micro-finance institutions and non-banking finance companies.

***Early signs highlight the success in generating economic activity and creating a churn among SMEs and the self-employed***

Any individual with a business plan may avail of a Mudra loan up to Rs 10 lacs. Whilst the average loan size is around Rs 50,000, total disbursements since its launch in April 2015 have exceeded Rs 3.2 trillion, with approximately 75 million borrowers. Of these, 22.4 million were first-timers. More importantly, 45% of disbursements have been in favour of women.

The intent of this exercise was presumably to generate economic activity and churn amongst a segment of the business community and self-employed individuals who were previously unable to

access formal credit markets. Quite obviously, the scheme has been successful and should, therefore, have a consequential impact on employment generation, none of which has so far reflected in official statistics. It is hard to estimate what this is, but some analysts believe new job creation could be as high as 20-30 million.

***With 6-8 million individuals entering the workforce every year, India needs to create jobs at a faster pace***

#### **Summing up...**

In conclusion, it would be reasonable to assume that, contrary to popular perception, employment in India has actually been rising and at a pace much quicker than in previous years. Empirical evidence, not only through a deeper scrutiny of survey findings but equally from the outcome of Mudra, a rise in consumption together with indirect taxes, supports this view.

Be that as it may, India still needs to create jobs perhaps at a rate faster than what it is currently doing. Farmer agitations, for instance, in Haryana, Gujarat and Maharashtra, are testament to this. Current estimates suggest that 6-8 million qualified individuals enter the workforce every year. Having obtained some level of formal education they are no longer satisfied with traditional forms of work such as farming and wage labour. If their aspirations are to be fulfilled, the industrial economy needs to grow at rates exceeding 10% per annum. This clearly requires massive investments in manufacturing and a lesser reliance on imports. But that is clearly a different subject, worthy of another research-based analysis.

*The contents of this paper are based on discussions of The India CHRO Forum in Delhi with Adit Jain, Editorial Director, IMA India, in October 2018. Please visit [www.ima-india.com](http://www.ima-india.com) to view current papers and our full archive of content in the IMA members' Knowledge Centre. IMA Forum members have personalised website access codes.*