

# \* Quality gigs, a solution to urban unemployment

## - Data from CMIE

↳ sharp rise in national unemployment rate from 6.51% (Nov 2020) to 9.06% (Dec)

## - For rural India (in 2020)

- employment support

↳ by MGNREGA

- Rural Development Ministry has already spent 90% of its ↑ ₹864000 crore allocation by Nov

- 13% of the 75 million households that demanded work did not get it.

## - Urban India (2020)

- shuttered businesses

- many workers out of work

↳ had to take new forms of work

↳ some took to gig economy

## - Fairwork Foundation's annual review of gig workers on 11 digital platforms

- Only 2 → Urban Company & Flipkart scored

more than 5 (out of 10)

- Bottom rankings (scoring less than 2) to four largest platform giants
  - ↳ Uber, Ola, Swiggy, Zomato

- Need is to understand the gig workers & workers

- ↳ as no estimate of gig workers in India

- Is Regulation the Way?

- sensitive issue
- because for some workers, it is a side hustle but for others it is a primary source of employment
- A one size fits all regulatory strategy may unintentionally hurt the similar, yet distinct, market for highly skilled (& highly paid) freelancers

- A Viable strategy

- conditional govt partnership with platforms
  - ↳ like Swiggy's Street Food Vendors prog. under PM SVANidhi
  - ↳ onboarding of 36K street vendors on Swiggy's platform

↳ Swiggy ensured that each vendor is registered & certified by FSSAI.

• Similar collaborations on urban employment could be one way

Current proposal for Urban Employment Guarantee

↳ peg daily worker wages @ ₹300 per day

↳ i.e. cost of ₹ 1 lac crore to the exchequer

↳ collabs will bring down costs significantly for both state & their partners

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## Re-evaluating inflation targeting

March 31st will mark the end of the term of monetary policy framework agreement between the Centre and the Reserve Bank of India (RBI) on inflation targeting.

Inflation targeting:

- Inflation control is a legitimate objective of economic policy given the correlation between inflation and macro-economic stability.
- Inflation targeting is one of the many inflation control policies.
- Unlike the money-supply targeting policy of inflation control, inflation targeting method prescribes the use of the interest rate to target inflation. Given that the policy interest rate, is under the direct control of the central bank, this method is believed to be more effective than the monetarist approach.

## Trends:

- Though the inflation rate has remained within the prescribed band of 2% to 6% since 2016 and the RBI has succeeded in anchoring inflationary expectations, the available evidence and observed trends are not conclusive on the efficacy claimed for inflation targeting.

## Logical vulnerabilities in the assumed model:

- The economic model that underlies inflation targeting revolves around the proposition that inflation reflects "overheating", or economic activity at a level greater than the "natural" level of output, having been taken there by central banks that have kept interest rates too low, at a level lower than the "natural" rate of interest.
- This necessitates the need to raise the rate of interest ('repo' rate) to control inflation.
- Inflation in India entered the prescribed band of 2% to 6% two years before inflation targeting was adopted in 2016-17.
- In fact, inflation had fallen steadily since 2011-12, halving by 2015-16. This by itself suggests

that there is a mechanism driving inflation other than what is imagined in inflation targeting.

- The decline in inflation has been mainly led by the relative price of food. The vagaries of the price of food are a major determinant in inflation rate and the adopted model fails to acknowledge this aspect.

Impact of inflation targeting:

- Five variables namely growth, private investment, exports, non-performing assets (NPAs) of commercial banks, and employment would be analyzed here.
- The economy's trend rate of growth actually began to decline after 2010-11. This trend was observed despite falling inflation trend.
- It indicates that the sharply falling inflation could do nothing to revive growth, belying the proposition that low inflation is conducive to growth.
- The swing in the real interest rate of over 5 percentage points in 2013-14 was powered further in 2016, when inflation targeting was adopted, and could have contributed to a declining private investment rate.

- This indicates that the higher interest rates, the toolkit for inflation targeting, may have been harmful for private investment in the economy.
- Exports and employment rates have fared poorly since inflation targeting was adopted in 2016.
- It has long been recognised that a central bank focusing on inflation may lose control of financial stability.
- NPAs have grown since 2016, and the cases of IL&FS, PMC Bank, PNB and YES Bank are indicative of the poor management and malfeasance in the financial sector, given the excessive focus of the central bank on inflation targeting.

### Conclusion:

- Though Inflation control will always be relevant for macroeconomic stability, there is no conclusive evidence that the policy has worked in India as the presumed benefits of low inflation are yet to become evident.
- Infact inflation targeting may end up raising interest rates to higher and higher levels which bring out many negative impacts as discussed above, without lowering inflation.

## \* An urban jobs safety net

- Pandemic caused loss of livelihoods
  - World Economic Outlook (2021) of IMF
    - ↳ almost all countries, except China experienced economic contraction.
  - Global GDP shrank by 3.3%
    - ↳ India's GDP ↓ by 8%.
  - 95 million fell into extreme poor category
  - Unemployment rates
    - ↳ 7-9% in Euro, US & Canada
    - ↳ 23.5% in Apr 2020 in India & now 6.9% (Feb 2021)
  - Economic deceleration
    - ↳ led to loss of livelihoods.
- Need for a livelihood safety net
  - In rural areas → MGNREGA exists
  - In urban areas → nothing except the National Urban Livelihoods Mission
    - ↳ focus on self-employment by skill upgradation & credits by banks
    - ↳ but no guaranteed wage employments



- As a result, it led to urban to rural migration

## - Solution: Wage Employment based Urban livelihood Scheme

- Eg: Mukhya Mantri Shahri Ajeerika Guarantee Yojna (MMSAGY) in H.P.

## • MMSAGY of Himachal Pradesh

↳ to provide 120 days of guaranteed wage employment to every household at minimum wages in FY 20-21

↳ work given in unskilled works or in sanitation services of the municipality.

↳ Job card is issued & employment provided within a fortnight.

↳ Otherwise compensated at ₹ 75 per day

↳ Wage component funded from ULB grants under State & Central Finance Commissions.

## - Way Forward:

↳ Urban livelihood scheme should be launched within existing fiscal space.

- ↳ Union & States can also provide resources together.
- ↳ There should be separate minimum wages for rural & urban areas.
- ↳ Focus must shift from asset creation to service delivery. Focus should be on enhancing quality of municipal services.
- ↳ It should be administered at national level.

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## When global firms disengage, employment suffers

The most recent labour statistics, for August 2021, released by the (CMIE) shows that the unemployment rate has increased from around 7% in July to 8.3% for August 2021.

In absolute terms, 1.9 million jobs were lost in one month.

- A sectoral analysis presents the fact that most of the jobs lost were farm jobs.
- While employment in agriculture fell by 8.7 million, non-farm jobs increased by 6.8 million, mainly in business and small trade, but the manufacturing sector shed 0.94 million jobs.
- Much of the labour shed by agriculture has been absorbed in low-end service activities.

- While non-farm jobs increased to absorb some of these, the quality of new jobs generated is a matter of concern.
- During normal times, seasonal labour released from agriculture gets accommodated in the construction sector.
- But, currently, the construction sector itself is shedding jobs, forcing workers to find employment in the household sector and low-end services.
- This non-availability of sufficient jobs in manufacturing and higher-end services could be the dampener for economic recovery in the subsequent quarters of the current fiscal year.

### Raising the level of investments:

- The economy has been waiting for private investments, but their levels have been very

low, accentuating the unemployment situation.

- According to the elementary economic theory, raising the level of investments is the key to output and employment growth.

- While public investments are important, there is a dire need to complement them with even more private investments.

- Turning to (FDI) to supplement domestic capital formation is an approach that India has been pursuing by making 'ease of doing business' more attractive.

Issues - Employment sustainability:

- When FDI increases, the sustainability of increased employment is often threatened

- As it depends on the business avenues that other competing economies open up leading to corporate restructuring at the global

level and firm exits from earlier locations.

- When such firms exit, they create massive disruption in the local economy.

- The exits of high-profile global firms affect employment generation in the following ways.

- It creates apprehensions among potential investors about choosing that location for greenfield investments or for scaling up existing facilities.

- It affects private investments even if an economy claims to have the tag of investor friendliness.

- The process of the destruction of jobs through exits creates mismatches in the labour market.

- It leads to a levelling down of wages which occurs when high-end services firms exit.
- Causes a big influx of low-skilled workers to other sectors as the same sector might not be able to absorb the workforce released.
- This disruption in the labour market aggravates an existing unemployment problem.

### Way Forward:

- While inward FDI does generate jobs both directly and indirectly through an increase in production activities, the magnitude of employment generated especially in the manufacturing sector needs closer scrutiny.
- The euphoria on the inflow of FDI and associated benefits must be evaluated in comparison with the reality of the

emergence of modern transnational corporations (TNC).

- When TNCs emerge as key players in an industry, a proliferation of mergers and consolidations across national and international borders might be frequent.

- These are efforts to open up new opportunities in new markets. Such waves of expansions and contractions are aimed at acquiring new markets and new trade opportunities.

- This process of internationalisation of production is driven by the big firms by investing in and out of developing economies.

- Growing scepticism towards more open trade policies and the rise of protectionism have increased the risk and unpredictability of policy environments, leading to deeper



## A hazy picture on employment in India

Budget 2022-23 was presented amidst concerns of high levels of unemployment in the country.

### Lack of data source:

- Last available data from Census are from 2011.
- The quinquennial **Employment and Unemployment surveys of the National Sample Survey (NSS)** are the primary sources of data
- Similarly, the quinquennial (after every 5 yrs) NSSO data on employment and unemployment are available up to 2011-12.

### Periodic Labour Force Survey (PLFS):

- It was designed with two major objectives for the **measurement of employment and unemployment.**
- Started in 2017-18 on an annual basis, the PLFS data set is now available for three consecutive years i.e., 2017-18, 2018-19 and 2019-20.

**Issue with PLFS Data:** The PLFS data cannot be used to infer an underlying trend, as they are available only for three years.

**Significance of PLFS Data:** They can be used to reveal the effect of various policies and development regimes as well as to understand and shape the employment scenario based on concrete statistics.

### PLFS vs NSSO:

The time series data on employment & unemployment available from NSSO surveys are not comparable with PLFS data as they are based on different sampling frameworks.

### Trends In Employment Pattern In India (from PLFS)

#### 1. Worker to population (WPR) ratio:

- PLFS data show an increase in WPR ratio from 34.7% in 2017-18 to 38.2% in 2019-20.
- This change implies that employment has increased at a much faster rate than the growth in population.

#### 2. Female WPR ratio:

- Female WPR ratio increased from 17.5% to 24% between 2017-18 and 2019-20.

- When this ratio is multiplied by the female population, it shows an annual increase of 17% of women workers.

### 3. Male and female worker participation rate

- Another positive indication from PLFS data is that the gap between the male and female worker participation rate is narrowing down.
- As against 100 male workers, there were 32 female workers in the workforce in 2017-18. This number increased to 40 in 2019-20.

### 4. Unemployment rate in the female labour force

- In rural areas it is far lower than the male labour force, whereas the opposite holds true in urban areas.

### 5. Unemployment Rate

- PLFS data show that the unemployment rate declined from 6.1% (2017-18) to 4.8% (2019-20)
- Thus the no. of jobs increased at a faster rate than the increase in the number of job seekers between 2017-18 and 2019-20.

## 6. Sectoral Composition of the workforce

Sectors	% of workers
Agri and allied activities	45.6%
Services	30.8%
Industry	23.7%

- No increase in the share of industry and services in total employment.
- Employment in the manufacturing sector showed a meagre increase of 1.8 million in two years.

### Way forward:

India should rethink the strategy of striving for an industry-led growth model and explore a more relevant agri-centric model of eco. transformation.

This should include -

- Changes in labour laws that discourage industry to adopt labour-intensive production
- Employment-linked production incentives and;
- Special assistance for labour-intensive economic activities.

## Whither unemployment benefits?

### Unemployment trend in India:

- The unemployment rate in India stood at 6.1% in 2017-18.
- Notably, there exists a gap between the urban unemployment rate and rural unemployment rate with the urban unemployment rate being on the higher side.
- While the unemployment rate declined to 5.8% in 2018-19 and 4.8% in 2019-20, the urban unemployment rate has declined only marginally to 7.7% and 6.9%, respectively.

### Unemployment relief in India:

#### 1. Rajiv Gandhi Shramik Kalyan Yojana:

- It provides unemployment allowance to involuntarily unemployed insured persons who have made contributions for two years to Employees' State Insurance.
- The scheme is designed under the Employees' State Insurance Act (ESIA), 1948.

- It provides cash support at the rate of 50% of the last average daily wages for the first 12 months and 25% for the next 12 months.
- It covers those who become unemployed due to retrenchment, closure or permanent invalidity.
- It also provides for medical care during unemployment tenure as well as vocational training to equip the worker for future employment opportunities.

## 2. Atal Beemit Vyakti Kalyan Yojana:

- The Union govt introduced the (ABVKY) in 2018 on a pilot basis for two years.
- Unemployed insured persons are provided cash allowance at the rate of 50% of the average per day earning of the claimant for 90 days.

## 3. Industrial Disputes Act:

- As per the (IDA), 1947, industrial establishments employing 100 or more workers must pay **retrenchment compensation** to workers in case they lose jobs due to govt-sanctioned workers' retrenchment or closures of establishments.

## Concerns:

- Employees' State Insurance Act under which the RGSKY functions has limited coverage in India and has also been plagued by the issue of slow expansion in its coverage.
- The available data of the RGSKY points out the very low number of workers availing unemployment allowance.
- Similar observations were also made under ABVKY.
- Employment-intensive industries like construction and services are excluded from the provisions of the Industrial Disputes act.
- Notably, many States have amended provisions under the IDA to apply it to establishments employing 300 or more workers.
- Thus workers employed in smaller establishments are unable to receive retrenchment payments.
- Retrenchment compensation paid under IDA remains very low & is insufficient for the workers .
- The burden of unemployment allowance is transferred to the employer under IDA while the govt absolves itself of all responsibilities.

- Notably, employers have been hesitant in paying the retrenchment compensation to workers.

### New Labour codes:

- The **Social Security Code (SSC), 2020**, though included unemployment protection in its definition of 'social security', did not provide for a scheme for the same.
- It only offers vague promises of schemes to the unorganised workers.

### Recommendations:

- An **urban employment guarantee scheme** on the lines of the successful MGNREGA should be framed.
- Economists have shown that relief to workers does not cost much as a proportion of GDP.
- The govts should consider allowing for a universal unemployment allowance scheme.
- The **Social Security Code must be amended** to provide for a universal unemployment allowance scheme funded by the tripartite contributions of employers, workers and the govt.



on output due to a decrease in the availability of low-cost credit.

### Recommendations:

#### Other measures to tame inflation:

- RBI and fiscal authorities should also consider taking other possible measures including cutting fuel taxes to keep inflation levels low.

#### Address growth concerns as well:

- RBI should ensure the availability of adequate liquidity to meet the productive requirements of the economy.

### Inflation control needs another model

- Inflation has been a major point of concern in the Indian economy.
  - WPI has been in the double digits for over 12 months.
  - CPI has been above the Reserve Bank of India (RBI)'s upper target of 6% for three months continuously.

- The Monetary Policy Committee to reduce inflation has increased the repo rate by 40 basis points (bps) to 4.4%.

### Understanding inflation and inflation targeting

- As per the model adopted by Western central banks inflation reflects an excess of output over its 'natural' level.
  - The RBI report of 2014 recommended a move to inflation targeting.
- Inflation targeting involves raising the interest rate. This increased rate of borrowing will push the firms to decrease output thus easing inflation.

### Concerns with the current approach:

#### Use of intangible parameters:

- Since the natural level of production is not explicitly defined it cannot be used as an effective tool for financial stability.

#### Ignoring the domestic factors at play:

- prices of agricultural goods have more influenced

in inflation compared to imported oil. The model adopted by RBI neglects this salient aspect.

### Undesirable impact of monetary policy:

- The suppression of output comes at the cost of depressed growth prospects and employment opportunities.

### Ineffectiveness:

- RBI's raising of the repo rate are not an efficient solution for agricultural price-driven inflation.

### Recommendations:

- increase the supply of agricultural goods and ensure their availability at affordable prices.
- Keeping in mind, the shift in average consumption basket towards foods rich in minerals, the focus should be on such products along with staple cereals like rice and wheat.
- Continuous increase in procurement prices driven primarily by political reasons needs to be understood and necessary measures taken to address these concerns.