



The Shape of Growth Matters

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(This editorial is based on the article “The Shape of Growth Matters” which appears in The Hindu on 27th December 2018.)

India is on the cusp of a major transformation. Change has been continuous in every sector. The economy is finally moving out of the negative legacies of the past, specially the reckless credit expansion. India has regained its position as the fastest growing large economy in the world.

For achieving further targets, recently **NITI Aayog released the ‘Strategy for New India @ 75’ document** with an aim to accelerate economic growth to 9-10% and make the country a \$4-trillion economy by 2022-23. **The document replaces the now-defunct five-year plans.**

Employment and Labour Reforms in the Report

Objectives of Labour Reforms

- Complete **codification of central labour laws** into four codes by 2019.
- **Increase female labour force participation** to at least 30 per cent by 2022-23.
- **Disseminate publicly available data**, collected through rigorous household and enterprise surveys and innovative use of administrative data on a quarterly basis by 2022-23.
- Encourage increased **formalization of the labour force** by reforming labour laws, easing of industrial relations and ensuring of fair wages, working conditions and social security through significant productivity improvements in the economy.

Current Situation of India’s Workforce

- Of India’s total workforce of about 52 crore, agriculture employed nearly 49 per cent while contributing only 15 percent of the GVA(Gross Value Added). In contrast, only about 29 per cent of China’s workforce was employed in agriculture.

- Micro and small-sized firms as well as informal sector firms dominate the employment landscape in India. As per the National Sample Survey (NSS) 73rd round, for the period 2015-16, there were 6.34 crore unincorporated non-agricultural micro, small and medium enterprises (MSMEs) in the country engaged in different economic activities providing employment to 11.10 crore workers.
- A large majority of these firms are in the unorganized sector. **By some estimates, India’s informal sector employs approximately 85 percent of all workers.**
- While there are many refreshing improvements in NITI Aayog’s ‘Strategy for New India @ 75’ from the erstwhile Planning Commission’s plans, there are also concerns about some of the strategies recommended.

Reorienting labour laws

- The strategy on labour laws appears pedestrian compared with the ambitious strategy of uplifting the lives of millions of Indians so that they share the fruits of economic growth.
- **What is required is a fundamental reorientation of the laws and regulations — they must fit emerging social and economic realities.**
 - **First**, the nature of work and employment is changing. It is moving towards more informal employment, through contract work and self-employment, even in formal enterprises. In such a scenario, social security systems must provide for all citizens, not only those in formal employment.
 - **Second**, in a world where workers are atomised as individuals, they must have associations to aggregate themselves to have more weight in the economic debate with owners of capital. Rather than weakening unions to give employers more flexibility, laws must strengthen unions to ensure more fairness.
 - **Third**, all employers in India should realise that workers must be their source of competitive advantage. India has an abundance of labour as a resource, whereas capital is relatively scarce. Human beings can learn new skills and be productive if employers invest in them. Employers must treat their workers — whether on their rolls or on contract — as assets and sources of competitive advantage, not as costs.

Some Observations on the Report

The strategy affirms that “policy making will have to be rooted in ground realities” rather than economic abstractions. It says that stakeholders have been consulted widely in preparing the strategy, which is also something that the erstwhile Planning Commission said.

- **It is the shape of growth that matters more than size.**
- Overall growth is emphasised by NITI Aayog: **“Besides having rapid growth, which reaches 9-10 per cent by 2022-23, it is also necessary to ensure that growth is inclusive, sustained, clean and formalised.**

- **The employment-generating capacity of the economy is what matters more to citizens than the overall GDP growth rate.** There is no joy for citizens if India is the fastest-growing economy and yet does not provide jobs and incomes.
- The target for growth of industry and manufacturing sector is set. **But, it is not the size of the manufacturing sector that matters but its shape. Labour-intensive industries are required for job creation. If the manufacturing sector is to grow from 16% to 25% of the GDP, which the strategy states as the goal, with more capital-intensive industries, it will not solve the employment problem.**
- The strategy does say that labour-intensive industries must be promoted, but the overall goal remains the size of the sector. What one measures, one manages. Therefore, the goal must be clearly set in terms of employment, and policies and measurements of progress set accordingly.
- **A big weakness in the Indian economy's industrial infrastructure is that middle-level institutions are missing.**
- **Rather than formalising small enterprises excessively, clusters and associations of small enterprises should be formalised.** Small enterprises cannot bear the burden of excessive formalisation — which the state and the banking system need to make the informal sector 'legible' to them.

Way Forward

- It will be worthwhile for NITI Aayog to **get feedback from stakeholders** on whether it has improved the process of consultation substantially or not.
- **Indian statistical systems must be improved quickly** to measure the ground reality in various forms, formal as well as informal. So that it will further help to form policies.
- **Processes for participative governance are also in need of repair urgently.** Until they are fixed, any strategy cannot make the economy environmentally sustainable and inclusive.