

Is India Creating Jobs or Not?

[Ila Patnaik](#) May 19 2018, 10:59AM



(Bloomberg Opinion) -- In recent months, a sharp debate has broken out over whether India is or isn't creating new jobs. Supporters of the government cite studies, such as those based on Employees Provident Fund data, that show rising job growth. Critics point to household surveys that show jobs [being shed](#) in the past year, after the government shocked the economy by suddenly withdrawing most cash from circulation and then introducing a complex goods-and-services tax.

Who's right? Both are — and both are missing the point.

[QuicktakeIndia's Aspirations](#)

Jobs data in India is notoriously bad and contradictory. The five-year [National Sample Survey](#) doesn't tell us about last year, and the Annual Survey of Industries [data](#) doesn't capture new industries or services. Given different definitions of employment and different sources of data — many of which are marred by flaws — simply agreeing on how to measure job growth in India is a well-nigh impossible task.

Broad jobs numbers in India aren't especially revealing in any case. Employment rates and rates of participation in the labor force vary significantly between males and females, with India having one of the [lowest proportions](#) of working women (28 percent) in the world. The old and the young similarly have low participation rates.

Meanwhile, data from household surveys suggests that men between the ages of 25 and 55 have no choice but to work; unemployment is a luxury they cannot afford. Almost all males participate in the labor force (79 percent). India thus boasts a very low [unemployment rate](#) of between 3 to 4 percent.

Yet, anecdotally, many Indians feel they can't get the jobs they want. The image of [thousands of applicants](#) lining up to apply for a low-level government vacancy — which offers benefits and job security — has come to symbolize the desperation of the typical worker.

Any headline jobs numbers thus need to be examined more closely. Pessimists are right when they argue that demonetization and GST caused [waves of layoffs](#) in the informal sector, which employs the bulk of Indian workers. Many were fired in the months after demonetization, when employers didn't have the cash to pay them.

This shows up in the household survey data, which records a decline in labor-force participation rates in the past year. There's no point in denying the fact, as some government partisans have tried to do by citing signs of employment growth elsewhere.

At the same time, the optimists are right to argue that formal jobs are being created in India. This also makes sense, given the introduction of GST. The new tax is self-reinforcing: Now, when a manufacturer who pays the tax buys inputs for his products, he's better off buying from companies that are also in the tax net, so that he can get a corresponding credit for his purchases. As a consequence, the system favors GST payers.

Over time, this will shrink the size of India's informal sector and increase the number of formal-sector jobs. Many small firms — plagued by thin margins and low productivity — won't be able to pay the average GST of 12 percent and will have to shut down. In the long run, as more and more companies enter the tax net, production is expected to shift away from such firms almost completely.

This is good news: Companies in the formal sector are subject to inspections and labor laws, and their employees enjoy greater job safety and benefits. The more jobs created there, the better.

The question both critics and supporters of the government should be asking is how to speed up this process. Some state governments have attempted to relax labor laws and the central government has recently sought to liberalize contract labor. Progress is being made on increasing occupational safety and maternity benefits.

But the Industrial Disputes Act, which makes it difficult to shut down factories, remains in place. No doubt upcoming elections will make it even harder to usher in visibly unpopular reforms.

This shouldn't matter too much. In fact, companies already do have the flexibility to hire more workers, as the increase in formal-sector jobs would indicate. Reforms such as a new [bankruptcy code](#) should help. While it's undergoing some birth pangs, the code should pave the way to freeing up capital and entrepreneurship that is stuck in unproductive uses and allow it to be reallocated efficiently.

The focus should be on similar measures that make it easier for companies in the formal sector to invest and expand — and thus to absorb the workers being shed by informal businesses. The process is likely to be slow and painful. But there are no short cuts — and, at least, the right kinds of jobs are finally being created.

©2018 Bloomberg L.P.