

Inclusive Economic Growth with Employment Generation and Poverty Reduction

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Abstract

Inclusive economic growth and employment generation are the focus of current economic policies and planning. High growth, however, is not a sufficient condition for poverty reduction, the sources and pattern of economic growth as well as the way in which its benefits are distributed is equally important from the point of view of achieving the aim of poverty reduction. And employment plays a vital role in that context. This makes it imperative to have a sector-wise analysis of strength and weaknesses and an examination of whether there are discernible shifts in the structure of employment towards occupations with higher productivity in order to assess its future potential for economy of the country. The present study makes an honest effort to look into the challenges and potentials in various sectors in India.

Indeed, the conceptual framework outlined for analyzing the linkage between economic growth, employment and poverty follows a demand-supply approach. The variables that are expected to affect the incomes of poor from the demand side include shifts in the employment structure towards higher productivity sectors, employment intensity of growth, technology, etc. From the supply side, a key factor is the ability of the poor to integrate into the process of growth and get access to the job opportunities that are created. Levels of education and skills of the workforce are amongst the key variables that determine the ability of the poor to integrate into and benefit from the growth process. Early theories of development were based on the premise that the benefits of economic growth would trickle down to poor. Since then questions have been raised on the assumption of an automatic link between growth and poverty reduction, and attempts have been made to understand the mechanism through which the benefits of growth may get transmitted to the poor.

1. Introduction

Recent times have been characterized by economic downturns and shocks and these downturns have threatened to push back the growth and economic development that has been achieved by the human civilization. These economic slowdown and shocks also have an impact on the social security with people losing their jobs and thus increasing the poverty levels. In India, according to a study conducted by Mehta et al[1] revealed that 1 million jobs were thought to be lost due to the downturn effects. So to provide social security to the people government has tried to bring in Cash Transfer Schemes and passed Acts such as National Food Security Act (NFSA) to support poor families. These effects however have brought some positive effects but sustained effects can only brought in when these people are themselves involved in the productivity chain. Employment is a key factor that helps in reducing poverty levels but job growth is only possible with sustained economic growth. However different sectors have grown at different rates but labor saving technologies and slow growth rate in certain sectors have reduced the employment growth rate. Manufacturing sector that should be the pillar of the economy has grown at a slow pace and much of the manufacturing work of the technicians and unskilled labor has been mechanized forcing the non-skilled workers to change their pattern of employment. Even the agricultural sector has showed stagnant growth in employment due to low productivity and mechanization of farm technologies which has pushed them to change their pattern of employment. Urban population has grown at a rate of 2.76% in the decade ending 2011 and its share in the total population increased from 27.8 % in 2001 to 31.1% in 2011[8]. So in such circumstances growth of the service sector becomes an important factor that can help in improving the employment rate in India.

2. Literature Review

A lot of studies have been conducted which have tried to show the effects of GDP growth on employment and poverty. Loyza[2] showed in his study that agricultural growth and manufacturing helps in reducing poverty levels due to their employment opportunities. Study conducted by Kapsos [3] showed that growth in the service sector provides more jobs in comparison to the growth in manufacturing and agriculture. A study [4] has revealed the role of economic growth on employment and poverty. The study was conducted in 14 countries during the 1990's and it was found that poverty reduced in 11 out of 14 countries that showed significant growth and increased in 3 countries with stagnant growth. India was also one of those countries that showed significant growth rate and hence showed reduced poverty rates. Khan[5] in his study showed that different sectors are effective to different extent in their respective countries. Virmani[6] in his study has discussed the importance of manufacturing sector in providing employment to the skilled as well as unskilled labour in India. Ghosh[9] in his study has discussed the linkage between the growth and employment issues. Okun's law[7] of economic growth also has correlated the relationship between economic growth and unemployment through a regression line, it states that for every 2% increase in the output growth the unemployment rate decreases by 1% .

3. GDP Growth over the Years

Indian economy was characterized by a slow GDP growth rate of 3.4% during the period 1960-1970s and it managed to cluster up a growth rate of 5.3% during the period of 1980-1990[9] but it was the liberalization of trade policy that was brought in 1991 which has provided a major support to the economic growth in India. The liberalization of trade policy was instrumental in bringing foreign investments, and reduced the presence of state in production and trade. It was only after that the economy grew at an average growth rate of 6.5% for the next decade. In the last decade Indian economy has grown at steady pace and it has amassed an average growth rate of “7.3%”. It can be seen (Table1) that Service sector has provided robustness to the economy with an average growth rate of “8.9%” and is still growing at a swift pace. Agricultural sector has shown sluggish growth rate of 2.4% due to the factors such as improper finance, improper marketing of their products, and illiteracy. Improper storage chains in India have also led to a decrease in the agriculture growth rate. According to a report of FCI, the government incurred a loss of Rs 236 crore during the fiscal year 2012-2013 due to improper storage facilities. The contribution of the industrial sector has been satisfactory with an average growth rate of “7.6%” but still FIIs, FDI needs to bolstered to give an impetus to the industrial sector.

Table 1: GDP Growth in Recent Years.

Indicators	1999-2000	2004-2005	2009-10	Avg growth rate during the period
Growth rate(%)	8.00%	7.05%	8.59%	7.3%
Agriculture growth (%)	2.67%	0.18%	0.81%	2.4%
Industry growth (%)	5.96%	9.81%	9.16%	7.6%
Service growth (%)	12.05%	8.28%	10.50%	8.95%

Source: Planning Commission. Databook for DCH,10th March 2014,Pg-1

4. Effect of GDP Growth Rate on Employment Pattern

Economic growth and development in any sector has been closely co-related to the effects on the employment sector as well. It is seen that employment and economic growth in the agriculture sector has shown negative growth rate or very slow growth rate over the previous years. Employment in the agricultural sector has just gone up from 237 million people in 1999-2000 to 243 million people in 2009-2010. The important point is that 15 million people have left agriculture during the last half of the decade. A transformation in the employment pattern is palpable for the first time in the Indian history with people leaving agriculture as a work. More workforce joining agriculture at a time when the growth rate and productivity was low would have led to

reduced wages and would not have led to an overall economic development. Development thus means that people leave agriculture in search of more productive jobs in construction and service and thereby raise the productivity factor for the whole economy. With the rise in the growth rate of industrial sector the employment in the industrial sector has increased rapidly as well and it has gone up from 64.8 million people in 1999-2000 to 104.7 million people in 2009-2010. Even the share in the total employment has increased from 16.2% to 21.9% during the same period[10]. However much of the growth in this sector can be attributed to the increased employment opportunities in the construction sector and the employment of unskilled workers has gone up from 17.5 million people in 1999-2000 to 44.2 million people in 2009-2010 due to the changes in employment pattern. Increasing demand of real estate, roads bridges, and energy projects has also provided more employment opportunities. Even the rural India saw an increase in the employment opportunities in construction with government bringing out Acts such as MGNREGA and Indra Awas Yojna .On the other hand Manufacturing sector saw a decrease in the employment rate for the latter half of the decade which was primarily due to the low demand of consumer goods such as processed goods; processed foods; shoes; furniture, etc but as the per capita income of people and the number of non poor people is increasing the employment is expected to increase .Even it saw an increase of 9 million workers till 2012 to meet the finished product demand of these new rich people. Service sector with its huge growth rate has also provided a major support to the employment growth rates as well. The employment in this sector has gone up from 94.2 million people in 1999-2000 to 112.8 million people in 2009-2010. Report of Economic Slowdown on Employment in India also showed an improved employment pattern for IT sector with 7.96 lakh jobs created itself during the period from September 2010 to September 2011.

Table 2: Employment Pattern in Recent Years.

S. No	Sector	1999-2000	2004-2005	2009-2010
1	Agriculture	237	258	243
2	Manufacturing	44.05	55.7	48.5
3	Non Manufacturing	20.8	29.9	56.1
a)	Construction	17.5	26.02	52.16
5	Services	94.2	112.8	112.3
a)	Trade	36.6	43.3	42.08
b)	Transport,storage and communication	14.6	18.4	19.3

Source: Planning Commission. Databook for DCH,10th March 2014,Pg-110(all figures in millions)

5. Effect of GDP Growth Rate on Unemployment

Economic growth is the increase in the value of the products and services in an economy. As the economic growth increases there is an increase in productivity and thus an increase in employment opportunity but if the growth is slow and economy is

going through recession it can lead to unemployment as well. On comparing the GDP growth to the unemployment rates (Fig. 1) we see from the Fig. that as the economic growth has declined the unemployment rate has also increased. The rate of employment also remained stagnated during the initial stages of growth (2003-2004) after the economy went through a sluggish growth rate period (2002-2003). It is mainly due to the reason that companies during the initial stages of growth try to maximize their productivity through the underutilized workers that were not laid off during recession and it is only after they cannot increase their productivity with the available man force that they hire new workers (2004-2005 to 2009-2010). So for trying to reduce the unemployment rates and increasing the growth rate the government should focus on starting new projects. Micro small and medium enterprises have been identified as an engine of growth everywhere in the world. These sectors have been characterized by low investments, high growth rates and high employment rates. So Acts promoting these industries such as MSMED (Micro Small and Medium Enterprise Development) must be passed. Easing the monetary tightening, reducing the inordinate delays in projects due to environment clearances and passing the key economic legislation can lead to an increased growth and employment rates. Legislations such as Goods and Service tax, reversing policies such as providing accelerated depreciation, allowing FDI where possible, scrapping Minimum allowable Tax(MAT) and bringing again investment allowances provisions can help in providing a stimulus to growth.

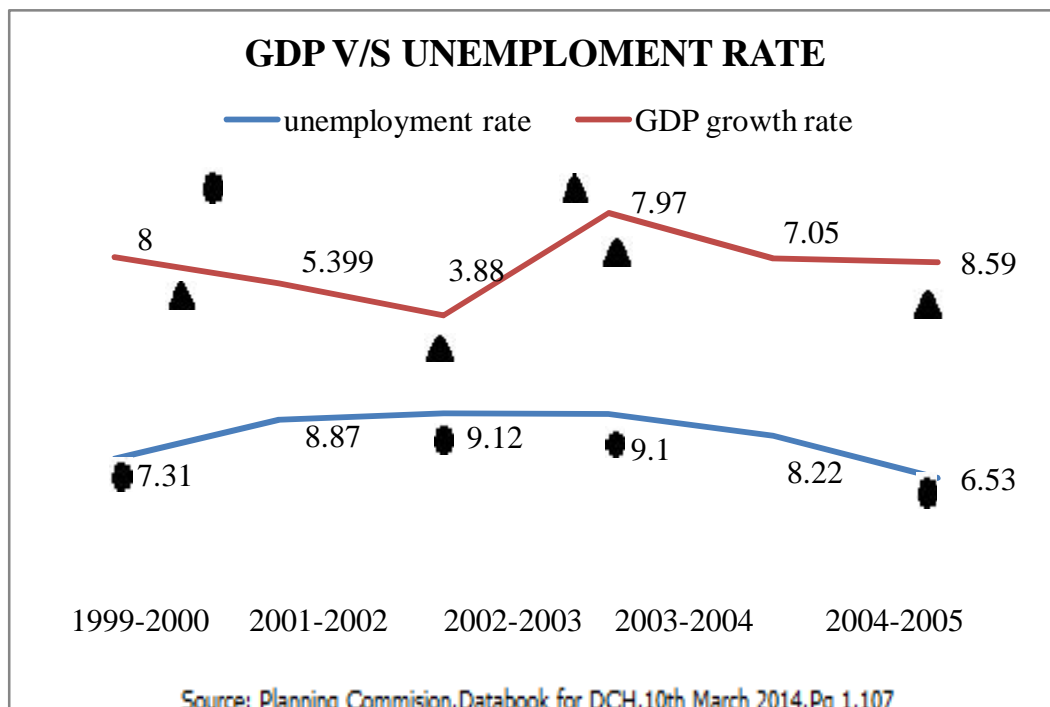


Fig. 1: Relationship between GDP and Unemployment Rate.

6. Effect of Economic Growth on Poverty Ratio

Employment pattern and growth rates have been closely linked to the poverty ratio as well (Fig. 2). In India inspite of significant growth rate the poverty ratio used to remain significantly high till 2004 -2005 but it was for the first time during the period 2004-2005 to 2011-2012 that there was a reduction in the absolute number of poor. The 15.3 percentage points decline during the period of seven years (2004-2005 to 2011-2012) amounts to a huge 2.2 percent decline in the annual poverty rate. The reason was that before 2004-2005 the wages of workers used to remain comparatively low and stagnated but it was the effect of MGNREGA and the setting up of the minimum support prices for cereal that raised the wages of the laborers. Other thing that had an impact was the rise in demand of labor requirement in construction that led to a tightening of the labor market and thus led to an increase in their wages. The liberalization of societies also helped as now even the female member of a family can search for a job. This all assisted in bringing people above the poverty line but sustained poverty reduction is only possible through skillful planning that aims at not only providing support to the old agriculture, industrial and service infrastructure but also aims at bringing up new infrastructure as well. This will not only increase the growth rate and productivity but also help in providing employment by the new opportunities and other by increasing the tax revenues that can be spent on welfare schemes such as NFSA, MGNREGA.

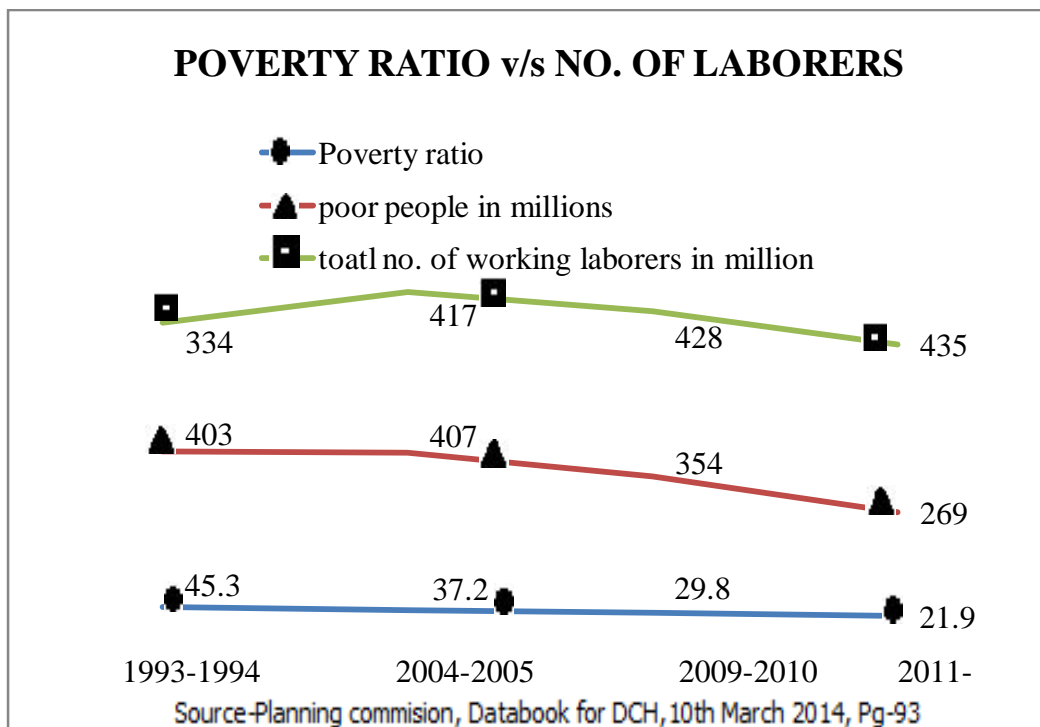


Fig. 2: Relationship between poverty ratio and no. of working people.

7. Conclusion

India's 1.25 billion citizens have higher expectations today, than they ever had in the past. They have seen an unprecedented economy growth in the past 10 years and have seen it deliver benefits to a large section of the society. This has raised the expectations of all the sections, especially of those people who were benefited less. People of India are much more aware now of what is achievable, and they will settle for no less. India has become one of the two large economies of the world that have been growing faster than any other large economy (the other being China). It is now the fourth largest economy in purchasing power parity terms. However, employment in total and in non-agricultural sectors has not been growing in recent years. This jobless growth has been accompanied by growth in casualization and informalization. The efforts should aim at a growth process that preserves emphasis on inclusion and sustainability while minimizing downside effects on growth.

Bad monsoon early in the decade caused low agricultural productivity and thereby low profit margins for the farm owners. Due to this reason agricultural laborers were forced to leave their occupation and go in search of new jobs, Unskilled workers who left their occupation joined the construction industry and their number grew from 17 to 25.6 million from (1999-2000 to 2004- 2005). Therefore a lot needs to be done to strengthen the infrastructure so that even in the case of a bad monsoon the productivity doesn't gets affected and there are enough jobs for the laborers who are unemployed. There is a need for strengthening the industrial base as well. Certain more policies such as National Manufacturing Policy which aims at increasing manufacturing growth from 16 to 25% of national GDP and increasing the number jobs by 100 million by 2022 should be instituted. For the liberalization of business certain new Acts such as Special Economic Zone Act of 2005 should be promulgated so that there are increased investment and job opportunities. Growth in the service sector has been mainly pushed by the growth in the domestic demand so more needs to be done to encourage exports in service sector as well .Inflation should be kept in control by controlling the key interest rates and structural constraints should be removed to promote growth in every sector. By using prudent steps we can not only improve the growth rate but can also provide the people of India with increased job opportunities which will lead to an overall development of the country. Thus, this paper fully recognizes that the objective of development is broad-based improvement in the economic and social conditions of our people.

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