

# Rethinking India's Industrial Policy for 'Good' Quality Jobs

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A recent [working paper](#) by the National Bureau of Economic Research (NBER), authored by scholars Dani Rodrik and Rohan Sandhu, sheds light on employment trends in the developing world.

The study suggests that the manufacturing sector generally generates minimal employment opportunities in these regions, while 'new' urban jobs are informal, unproductive, and mostly concentrated in the service sector. Their findings suggest that manufacturing is unlikely to absorb new entrants to the labour force or provide more productive jobs for those currently engaged in low-value service roles.

However, does this hold true for India as well?

An analysis of employment data in the manufacturing sector from FY2017 to FY2023 reveals a substantial decline in those absorbed by the sector during the pandemic, with employment dropping from 51.31 million in 2017 to 29.83 million in 2021. Although there was a recovery to 35.65 million in 2023, it has not reached pre-pandemic levels.



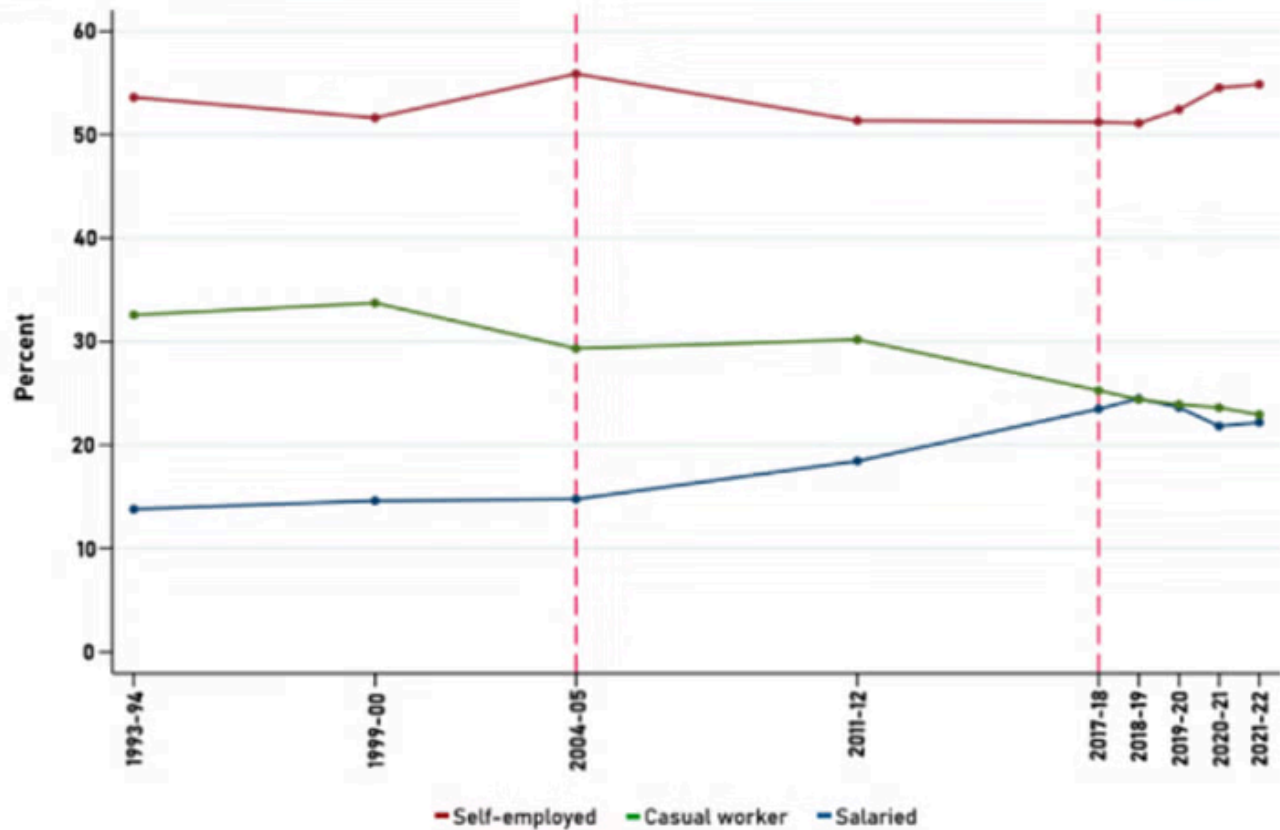
According to the World Bank, manufacturing's contribution to India's GDP has decreased from around 17% two decades ago to 13% in 2022 and since Prime Minister Modi's first election, India has added only five million manufacturing jobs, bringing the total to 65 million.

The sudden lockdown in 2020 prompted a mass migration of workers from cities back to rural villages, which many initially viewed as a temporary setback on India's path to industrialisation. Instead, the number of farm workers in India has increased by about 60 million over the past four years, partly due to a food-welfare program supporting millions. Even in the past year, when the pandemic's impact had lessened, India's farms added 13 million workers.

According to economist Santosh Mehrotra, more recently, the number of people working in farming in India has been declining since 2005, reaching a low of just under 200 million by early 2019. Since then, this figure has surged to over 260 million, nearing the peak agricultural employment levels of two decades ago.

A report by Citigroup Inc. also notes that India will struggle to create enough jobs for its growing workforce over the next decade even if the economy grows at a rapid pace of 7%, suggesting the country will need more concerted efforts to boost employment and skills. The government's response to this has been less about finding ways to 'create jobs' and more about 'creating new statistics around job creation' while offering an alternative set of facts to these reports/studies.

While the number of people employed in manufacturing has marginally increased, one of the key questions that arise is **what kind of jobs** are being created. India's job market presents a mixed, more disjointed picture (as argued more recently). While there's a resurgence in ad-hoc hiring across sectors, concerns remain regarding **the quality of jobs** created. There's also a notable rise in informal work and self-employment, which the government pegs as 'new jobs created', while actual, real growth in regular salaried positions remains stagnant. Let's look at the data more closely.



Data about the kind of jobs over the years.

(Source: India Forum)

The employment trends in India can be broken down into three phases.

The first phase (1993–94 to 2004–05) saw an increase in the proportion of salaried and self-employed individuals, with a decline in casual workers. From 2004–05 to 2017–18, the proportion of salaried workers continued to rise, reaching 23.5% in 2017–18 from 18.5% in 2004–05. During this period, both casual workers and the self-employed saw a decline.

This trend reversed in the third phase, with self-employment becoming more prevalent. The proportion of self-employed individuals increased consistently from 51% in 2017–18 to 55% in 2021–22. Concurrently, the proportions of both salaried and casual workers decreased during this time.

In terms of the quality of employment, it is critical to note that self-employment and casual work in India are often precarious, offering poor job security and significantly lower average earnings.

As the government aims to boost employment through the manufacturing sector, questions arise about the sustainability and effectiveness of this approach in terms of job creation. India needs a robust industrial policy that incorporates a hybrid model to achieve this goal. This model combines traditional labour-intensive industries like textiles and garments, which create numerous jobs for low-skilled workers, with modern high-tech sectors such as electronics and pharmaceuticals that drive innovation and productivity. Additionally, integrating services like R&D, logistics, and digital technologies into manufacturing enhances the value chain and creates further employment opportunities.

Emphasising green technologies and promoting the circular economy can generate new jobs while ensuring environmental sustainability. Moreover, raising productivity in services, which has been traditionally difficult but is now necessary for long-term growth in the standard of living, can be achieved through several strategies: incentivising large, productive firms to expand their employment; enhancing the productive capabilities of smaller firms with public inputs; providing technologies that complement low-skill labour; and offering vocational training with wrap-around services to improve job seekers' employability, retention, and promotion.

The hybrid model can create diverse job opportunities, enhance economic diversification, drive innovation, and promote sustainable growth, addressing current job market challenges and fostering inclusive economic development.

*(Deepanshu Mohan is Professor of Economics, Dean, IDEAS, Office of Inter Disciplinary Studies, and Director, Centre for New Economics Studies (CNES), OP Jindal Global University. He is a Visiting Professor at the London School of Economics, and a 2024 Fall Academic Visitor to the Faculty of Asian and Middle Eastern Studies, University of Oxford. Aditi Desai is a Senior Research Analyst with CNES and a Team Lead of its Infosphere Team, This is an opinion piece and the views expressed above are the author's own. The Quint neither endorses, nor is responsible for them.)*

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