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A recruitment drive for jobs in Israel at ITI Lucknow. Photo: Asad Rizvi

India's disjointed, highly heterogeneous and stratified employment landscape has seen significant changes over the years, highlighting the importance of identifying which sectors have experienced notable growth and how employment patterns have shifted.

While some sectors have the potential to transform the labour market, others have lagged. There is an urgent need for a comprehensive jobs-oriented industrial policy with an updated employment strategy to not focus on any job creation, but one that has 'good' and secured employment for upward mobility while meeting the workforce's aspirational demands. We try to present some critical reflections on these interconnected issues here.

Establishing a stronger growth-employment link

When examining the relationship between economic growth and unemployment, we find that a 1% increase in GDP results in a 0.31% increase in employment. In the short term, the effects of growth are even more pronounced, with a 1% GDP increase leading to a 0.95% rise in employment.

Figure: Growth vs Unemployment (CMIE)

While the growth rate has shown significant recovery since the dip in 2021 and the unemployment rate has gradually decreased, the employable population has consistently increased. Projections indicate that it will reach 64.9% by 2040. However, this raises the question: are there enough jobs to meet the demand and accommodate the growing workforce?

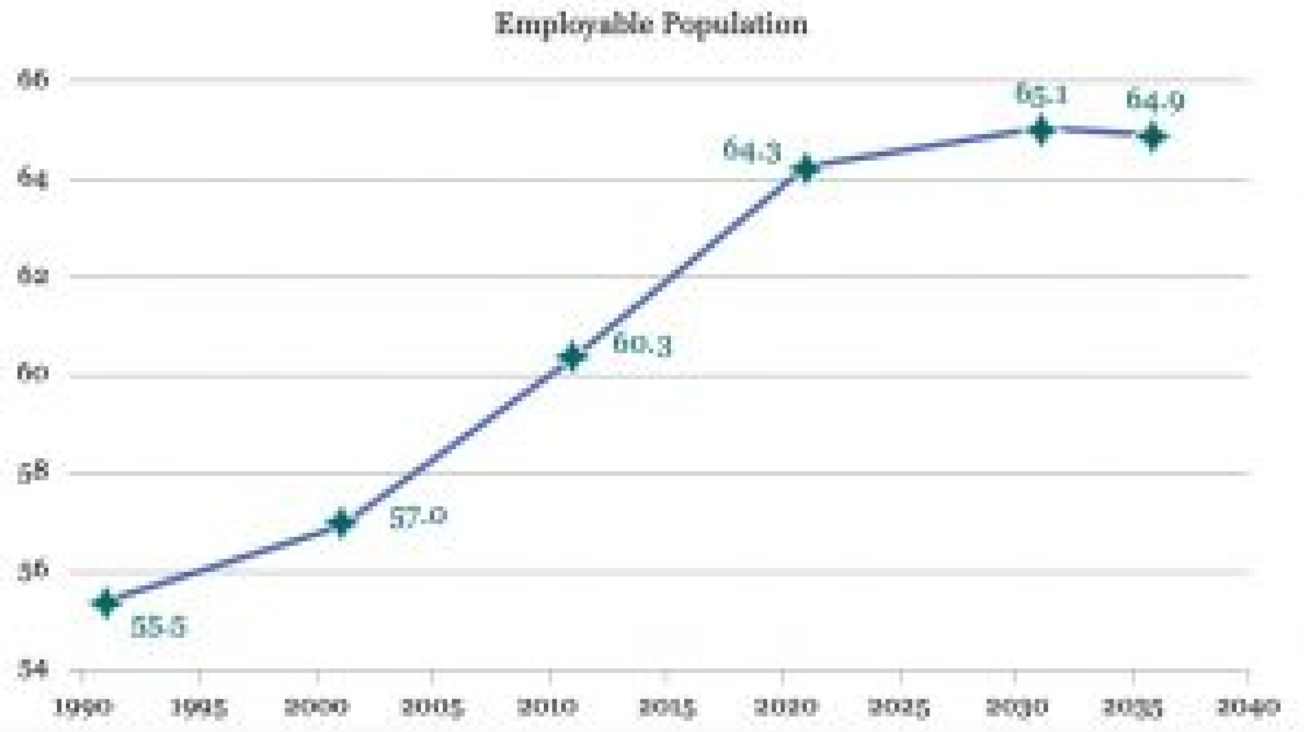

Figure: Projection for Employable Population Over the Years (Source: ORF)

In recent years, agriculture has remained the primary employer in India, but its share of employment has declined from 2021-22 to 2023-24. During the same period, employment in the industrial sector initially increased from 2021-22 to 2022-23, only to fall again. In contrast, the services sector has experienced steady and exponential growth from 2021-22 to 2023-24.

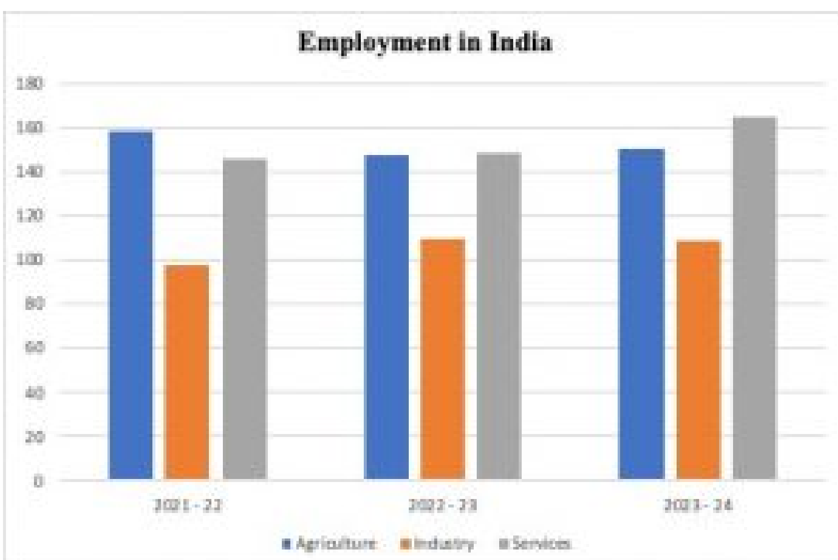

Figure: Employment in India (Source: CMIE)

Unveiling the service sector’s potential for job growth

A recent report by the Observer Report Foundation (ORF) on *India Employment Outlook 2030: Navigating Sectoral Trends and Competencies* emphasises the service sector's pivotal role in driving employment growth.

It highlights 10 high-opportunity sub-sectors within the service industry poised for rapid growth, including digital services, financial services, healthcare, hospitality, consumer retail, e-commerce, renewable energy, global capability centres, and the MSME and start-up ecosystems. Since FY2019, IT has seen substantial growth followed by finance and banking.

Further, a recent study by the Bank of Baroda also notes that the information technology (IT), banking, and finance segments within the service sector accounted for nearly half of the new jobs created by India Inc. in FY23. Of the 8.12 million new jobs, these three service sectors generated 3.91 million (48.2%). The IT sector led with 2.06 million jobs, followed by banking with 1.25 million, and finance with 575,000.

High growth sectors

Within the banking sector, 49.1% of the 1.6 million employees work in the public sector. Additionally, the share of gig workers in the workforce is expected to rise from 1.5% to 4.1% by 2029-30.

Other sectors such as healthcare (2.4%), chemicals (2.1%), infrastructure (1.7%), plastics (0.8%), paper (0.8%), and hospitality (0.1%) registered a compound annual growth rate (CAGR) below the national average of 3.1% during this period.

To fully harness the growth potential of the service sector, India's new industrial policy should focus on targeted strategies that create jobs and absorb new labour. Further, incentivising job-intensive MSMEs is key for creating jobs in manufacturing too. There is no either-or strategy between manufacturing and services here. One has to look at both of these as job-creating spaces and address the inconsistencies or inadequacies in the nature (quality) of employment for better upward mobility.

There is a need to establish a supportive framework for gig workers by providing social security benefits, health insurance, and access to credit while encouraging platforms to adopt fair labour practices and offer training programmes. Additionally, there is a need to promote collaboration between the government and private sector to drive growth in high-employment elasticity sectors such as tourism, hospitality, and financial services.

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Empowering MSMEs for economic growth and job creation

When we shift this focus towards Micro, Small, and Medium Enterprises (MSMEs), we see that they are vital to India's economic growth, contributing over 30% to the GDP and playing a significant role in exports. According to the recent data, from the Udyam registration portal, 4.68 crore Udyam-registered MSMEs have provided over 20.19 crore jobs, marking a 66% increase from the 12.1 crore jobs reported in July of the previous year. Impressively, 4.54 crore of these jobs are held by women, highlighting the sector's impact on female employment. MSMEs are the second-largest source of employment in India after agriculture, supporting millions of livelihoods nationwide.

The Indian government has launched several initiatives to bolster MSMEs, focusing on improving credit access, advancing technology, and providing skill development programmes. Between July 2020 and August 2023, MSMEs employed approximately 123.6 million people across the country. The 2024-25 budget includes a new Credit Guarantee scheme to help MSMEs secure financing, employment incentives to encourage hiring, and the establishment of Plug and Play infrastructure in 100 large cities.

The Prime Minister's Rs 2 lakh crore package aims to create employment, skilling, and other opportunities for 4.1 crore youth over five years.

A new employment policy could further enhance MSME growth by offering targeted support, such as tax breaks for MSMEs that create jobs in high-growth sectors, and by promoting digital transformation through technology adoption incentives. Additionally, strengthening partnerships between MSMEs and educational institutions can ensure that skill development programmes align with industry needs, preparing the workforce for future demands and enhancing the competitiveness of MSMEs in the global market.

Healthcare sector: Expanding opportunities amidst challenges

One of the other key sectors has been the healthcare sector, with an ageing population, the demand for healthcare workers has grown substantially. The healthcare industry, employing 4.7 million people, is one of India's largest employers and is projected to grow further. The hospital industry alone was valued at USD 61.79 billion in 2017.

However, there is a critical shortage of trained healthcare professionals, with a deficit of at least 1.54 million doctors and 2.4 million nurses. This shortage is exacerbated by environmental degradation, changing lifestyles, and a rising elderly population expected to double in the next two decades.

The healthcare sector, valued at approximately USD 372 billion and growing at a CAGR of 22%, also reflects increasing consumer preference for home healthcare services, which is projected to reach USD 21.3 billion by 2027.

Furthermore, global sovereign funds and long-term investors are eager to invest in India's hospital sector. Exempting hospitals with over 100 beds and built on more than 100,000 sq. ft using Infrastructure Investment Trusts (InvITs) from GST could unlock significant expansion opportunities. This policy could attract international funds to build hospitals across India while allowing local management. Listing these InvITs could also provide a sustainable capital source.

Agriculture: India's largest employer facing persistent challenges

As anticipated, agriculture remains India's largest employer. Data from the Reserve Bank of India shows that agricultural work contributed 48 million of the 100 million jobs created between FY 2017/18 and 2022/23. The Economic Survey of 2022-23 notes that 65% of the population lives in rural areas, with 47% depending on agriculture for their livelihoods. Despite this, inadequate income continues to be a major issue for rural workers.

In FY23, employment in agriculture, hunting, forestry, and fishing reached a 17-year high of 253 million, according to RBI data. This was the first time since FY07 that agriculture employment exceeded 250 million, with an addition of 50 million jobs in the past four years alone. In FY23, agriculture added 4.8 million jobs, surpassing the combined additions from manufacturing and trade, which totalled 4.4 million.

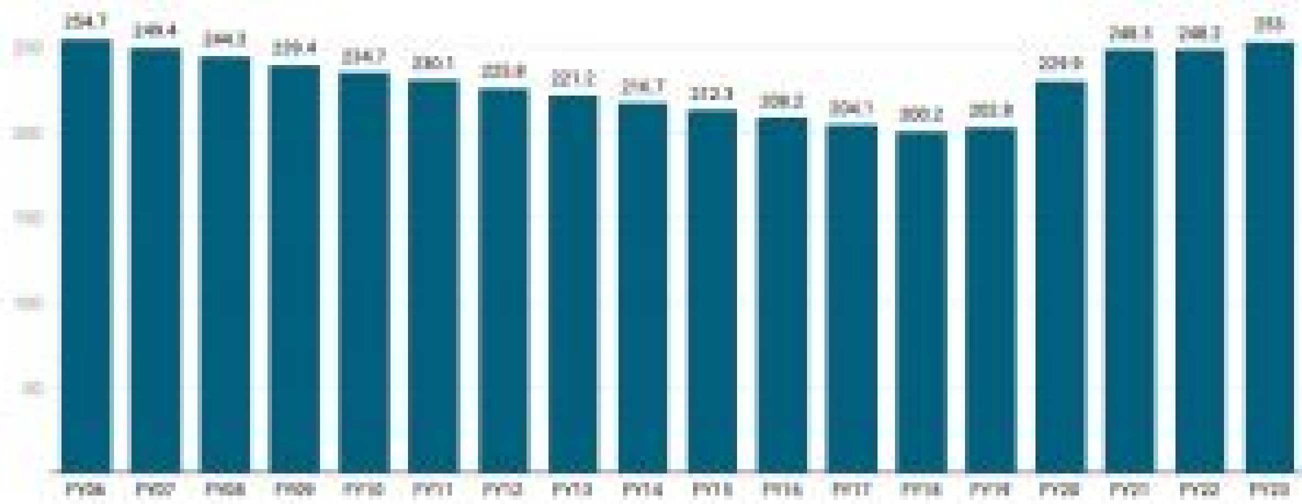

Figure: People Employed (in millions) in Agriculture Over the Years

To address these challenges and support sustainable growth in agriculture, the new employment policy should include targeted measures to enhance agricultural productivity, provide financial support for rural workers, and promote technological advancements in farming practices. While the budget for 2024-25 addresses some of these issues, the effectiveness of its measures will depend on robust implementation.

How can India's manufacturing sector sustain employment growth?

When we look at manufacturing, despite its importance to the economy, employment in India's manufacturing sector has stagnated and even declined over the past decade, particularly in urban areas. Technological advancements have increased automation and shifted the sector towards a more capital-intensive model, raising concerns about its ability to absorb the expanding workforce.

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.

Initiatives like Make in India and increased imports from the US have not yet reversed this trend. To rejuvenate employment opportunities, a transition towards integrating industrial value chains with the service sector is recommended. Leveraging public policies and initiatives such as Digital India, Pradhan Mantri Kaushal Vikas Yojana (PMKVY), Start-up India, Production Linked Incentive (PLI) Schemes, and PM Vishwakarma Yojana is crucial for stimulating job creation.

As the manufacturing sector becomes more capital-intensive, the capital-to-output ratio is expected to decline while the capital-to-labour ratio rises.

Overall, sectors with high employment elasticity, capable of generating more jobs, should receive increased investment and support. The primary sector, especially agriculture, currently exhibits negative employment elasticity, indicating limited short-term job creation potential due to technological advancements and increased capital intensity.

Conversely, the secondary sector shows mixed results, with negative elasticity in urban areas but potential for positive job growth in specific contexts.

To facilitate natural transitions in employment, policies should encourage movement from agriculture to related fields like agri-product processing and retail services. This approach aligns with structural transformation, where economies shift from agriculture to industry and services. Given the high employment elasticity of India's service sector, growth in industries such as tourism, hospitality, financial services, and healthcare should be prioritised. Services can absorb surplus labour released from capital-intensive production in agriculture and industry.

Additionally, greater cohesion on job-centered public-private partnerships can develop job-ready semi-skilled and skilled workforces (though the skilling process needs a whole separate discussion), driving employment through co-investment and innovation. Some creative destruction would happen but that needs to be anchored (for the benefit of job creation) purely by market forces not through government coercion.

Strengthening R&D within businesses can further lead to this – with high-value products and job creation taking place along the value chain. Optimising MSME value chains in Tier-2 and Tier-3 cities can also boost sales and create employment opportunities in smaller towns. What remains lacking is the mechanics of ensuring this which the current government machinery (and its policy ecosystem) has failed to ensure.

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