Business Standard

Subir Gokarn: Walking the line between demographic dividend and disaster

Majority of our potential 1 billion workforce is going to be obsolete even before they start working

Subir Gokarn May 05, 2014 Last Updated at 09:00 IST

The dominant factor that will determine whether India evolves into a middle-income nation over the next few decades is the country's ability to generate massive numbers of jobs. As is well known, India is now in a potentially virtuous phase of its demographic transition. The working age (15-60) segment of the population is growing faster than the young and the old. Every country that has been through a sustained high-growth phase has done it during such a phase. But, clearly, it does not happen spontaneously; all these people have to find productive jobs.

Going by the record, the Indian economy is not up to the task. It has not been able to move people out of agriculture fast enough. While the share of agriculture in gross domestic product (GDP) is less than 15 per cent, the share of the labour force still primarily dependent on this sector for its livelihood is above 50 per cent. Even for those who have moved out, the urban job scenario is hardly reassuring. About 40 per cent of this workforce is self-employed and another 18 per cent counts as casual labour. The entire organised sector, including the public sector, only employs about seven per cent of the workforce. Approximately 10 million people join the workforce every year, but they just join an ever-lengthening queue for jobs.

Close to a billion Indians will be in the workforce by 2030. At the rate at which we are going now, there is no way that we will have jobs available for only a fraction. But even if we do all the things that have been recommended, including by government agencies themselves, will we ever be able to generate anywhere close to that number of jobs?

Why does this question arise? Three factors need to be considered in making any projections about growth in jobs, particularly in the long term. First, though this may seem like a sweeping generalisation, all technological change is labour-saving. I have searched for an example to the contrary, but I am yet to find it. Of course, there may be indirect benefits in terms of new jobs created, but from the pure input-output perspective, less and less labour is going into everything that's being produced - whether it is potato chips or silicon chips.

Second, offshoring is now an entrenched part of any business model, which means there is an inexorable movement of jobs towards locations that offer the lowest unit costs, of which a significant component in most businesses is wages.

Third, technology and skill life cycles are shortening at a rapid pace. From the employment perspective, most skills become obsolete in about three to five years, which means either workers are displaced by new ones or - in the best case for them, though not necessarily for their employers - they plateau out in terms of productivity and income.

If one accepts these three propositions, the enormous employment generation goal seems not just distant but also unattainable. In their quest for competitiveness, producers will have to go with the technological flow, which means their ability to increase labour inputs per unit of output will decrease over time. Further, to the extent that they are looking to invest in capacity expansion, this could happen anywhere in the world, the choice being dictated by total cost minimisation objectives. Third, from workers' perspective, this indicates severe competitive pressure on wages from a combination of technology and geography.

This is the set of forces that the title of this column refers to. To put it bluntly, the majority of our workforce is going to be obsolete even before they start working. I believe we are attempting to respond to an unprecedented challenge in the 21st century with a workforce that is more suited to a mid-20th century global marketplace. But more restricting are the quality of infrastructure and a regulatory framework that date back even longer. This is a gloomy outlook indeed. Is there any ray of hope?

Perhaps, if we combine the more enduring elements of previously successful approaches with the intrinsic strengths of our own system and place this in an appropriate policy and regulatory framework. The enduring elements, in my view, are two. The first is an emphasis on school education, with the objective of every young person in the economy having crossed some threshold level of basic skills, whatever these might be specified to be. While education is best delivered under local supervision, monitoring of outcomes requires some national-level involvement. The second is the absence of job security regulations. The best examples of this are Malaysia and China, where special economic zones, which were exempt from these regulations, became the drivers of export-led growth.

Our intrinsic strength comes from high internal mobility of workers, which reflects both adaptability on their part and a highly efficient information network - far outperforming our formal institutions like employment exchanges. Over 90 per cent of our workforce is in the informal sector, which, notwithstanding all its disadvantages, is certainly an extremely flexible marketplace. People change locations, sectors and, to an extent, activities with amazing ease. But what hurts them is extremely low and mostly stagnant productivity - the plateau comes very early in the life cycle.

Together, these forces paint a rather complex canvas for policy and regulation. At least three imperatives can be identified. First, India must become the world's lowest-cost producer in several sectors. Macroeconomic stability and quality infrastructure are necessary conditions for this imperative. Beyond this, we enter the realm of industrial policy, which, given our past record, is treacherous territory. Can we find a constructive balance?

Second, public funding may be required for job creation beyond the safety net function of the Mahatma Gandhi National Rural Employment Guarantee Act. The suggestion that this scheme be used to subsidise wage costs of construction projects makes sense, provided it is equitably distributed and effectively monitored. There could be a substantial multiplier effect from a given amount of spending. Can we do this?

Third, we have to combine the flexibility of the informal sector with the productivity gains from efficient scales and organisation. Ease of movement, access to regular skill upgradation during a career and a safety net to deal with temporary unemployment are all components of this.

There is a very thin line between a demographic dividend and a demographic disaster. We are currently walking on it.

The writer is director of research, Brookings India, and former deputy governor, Reserve Bank of India. These views are personal