Indian workers: Economic slowdown’s worst casualties?

High unemployment combined with a declining real wage rate in a labour-surplus nation will continue to impose negative effects on components of growth.

By DEEPANSHU MOHAN, Nov 5, 2019

Looking at recent data on the performance of the Indian corporate sector in 2018-19, it appears that from a sample of 7,739 companies (as reported by CMIE), average sales of corporates grew by 16% with profits doubling during the year. Results of listed companies (that are more than 5,000 in sampled figures) saw their sales grow by 17% in 2018-19, the highest since 2011-12.

Contrarily, observing the latest data on the output of core sectors of the Indian economy, on aggregate, they fell by a record margin to negative 5.2% this September alone (2019). Except for fertiliser, sectors like steel, cement, electricity, natural gas, and crude oil, all of them have recorded negative growth, signalling the penetrative presence of a chronic economic contraction engulfing India’s producing sectors.

Another paradoxical data point is how in spite of rising profitability of some corporate groups, growth seen in terms of compensation to employees sharply reduced to 11.2%. In usual circumstances, a robust labour performance is a recipient to a stable year-on-year corporate performance that is witnessed in terms of a strong sales and higher profitability year. Still, this doesn’t seem to be the case here.

So, while profitability for some corporates is rising, the aggregate performance of core sectors is shrinking and more importantly, real wage rates of labour employed is falling. Adding to this macro-trend are falling real wages for those working in the rural sector.
In some ways, in India, we are witnessing an accidental economic fortune of a ‘demographic dividend’ shaping into a ‘demographic disaster’. This can be said, acknowledging the fact that high unemployment combined with a declining real wage rate, in a labour-surplus nation, will continue to impose negative effects on components of growth in areas of consumption demand, aggregate investment, and production levels (something we are seeing now).

A consequential weakening of nominal growth parameters also begs one to ask the question if, a certain degree of inflation, is both desirable and a need for India’s labour to find more (and higher) wage paying opportunities, at least in sectors hiring a lot of workers. Nobel laureate Abhijit Banerjee also advocated this view in his recent visit to India.

What is unfortunate is how the Modi government has absolutely misread this situation. The recent measures, including a big tax cut for corporates, can be seen as a step in the reverse direction (often borrowed from the failed neo-liberal concept of ‘trickle-down economics’). Corporate income tax cuts at best allow the profitability margins to rise for already profit-making groups, who have otherwise done little to pass these ‘benefits’ to workers (in form of higher compensation or more jobs).

Also, another element whose role is usually understated as a factor affecting labour productivity, is technology. Adoption of a ‘labour-saving form’ of technology involving a rapid substitution of capital with labour in areas of large-scale manufacturing, services to save long-term costs or to increase scale through capital investments, have already put Indian workers on the bad-side of a state-business bargain.

While one can blame combination of pro-business plus anti-worker sentiment from decades of neo-liberal government interventions, the inability of the Indian state to prioritise investment opportunities or align more incentives within labour-intensive sectors across the economy, is now being reflected at a macro-scale from the wrath of ignorant behaviour. Some might even argue that the recent shift in voting preference for Congress and opposition parties within state of Haryana was a consequence of how badly jobs were lost in the state -post Demonetisation and GST implementation (Haryana’s unemployment rate shot up to roughly 28%).

Technology and its role per se isn’t always ‘labour saving’ or labour-substituting in nature. There are illustrations of how new ‘labour-integrating’ forms of technology, encouraged by the ICT revolution actually allowed establishment of platform market economies, where such technology is allowing segments of workers to connect and do business together. Uber, Ola, Swiggy, Flipkart etc. are cases where new chains of labour-demand was created through the application of ICT. Technology is simply a tool, and its application, remains dependent on the policy environment it works in and the hand (the state) that guides it.

Having said that, a word of caution may be required on the nature of jobs created from labour-integrating technologies as well in India. What we are currently witnessing is a proliferated ‘contractualisation’ of aggregate semi-skilled and low-skilled Indian work-force (leaving agriculture), and the quality of such worker-based contracts remain conditionally skewed to suit employer’s interests (to enable a quick ‘hire and fire’ system safeguarding very few worker-protections).
So, what can be done?
There is a strong case to be made for enabling policy-interventions that encourage investments in labour-intensive sectors and application (or adoption) of labour-integrating technologies. Fiscal steps help and tax-cuts for those with a higher worker-population ratio in a certain threshold can be one step in this direction. A strong political will can ensure a more ‘employable’ environment for those entering the worker force in a sustained manner over the medium to long-term with policy examples from Asian economies (Taiwan, South Korea, China to cite a few) offering a good case-in point. In India, one can imagine such measures to be echoed by the Union government at a national level and guided extensively by state-governments at local levels, who are better aware of the core sectors functioning within their state-jurisdictions.
At the same time, one serious policy issue is that of paucity of employment data which makes progressive worker-oriented policy measures almost impossible at regular intervals.
A very small fraction of companies actually provide data on employment. For the year 2018-19, CMIE database processed data for a sample of 7,739 companies, while data on employment was available in only 1,777 of these. Even otherwise, at a national level, only a little over 3,000 companies actually reveal their data on employment numbers. Similar to GDP quarterly-estimates, one would argue that a similar quarterly-based estimate (as available in the U.S.) would be required – at least for the organised, formal sector.
Addressing a sharp decline in real wage rates combined with a high youth unemployment scale despite high corporate profitability needs to be India’s top policy priority, for social and economic reasons, and to avoid a demographic dividend turning into a demographic disaster.
Unfortunately, at this juncture, there are no signs of this policy problem being acknowledged, let alone being addressed.

Views are personal.

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