

NOTE

Employment Puzzle

Bharat Jhunjunwala writes :

Indian economy stands at a crossroads today. The growth rate is expected to be a very respectable 7-8 percent in the current year. But the common man is restive. The Naxalite movement has spread to about one-half of the country. People of West Bengal are resisting development schemes like those of Nandigram and people of Uttarakhand are resisting various hydropower projects. Benefits of the rapid economic growth are not reaching the common man. Number of jobs in the organized sector is declining. Industries are using capital-intensive automatic machines to reduce the cost of production. The Economic Survey published by the Ministry of Finance tells that jobs in private organized sector had declined to 84 lacs in 2005 from 87 lacs in 1998. The growth rate has accelerated from 5 percent to 8 percent in this same period. Rapid economic growth and loss of employment are going hand in hand.

The Government is trying to find solution to this problem by implementing Employment Guarantee Scheme and loan waiver for farmers. But these schemes only shove the problem under the carpet. For example, taxes are imposed on industries to provide revenue for the Employment Guarantee Scheme. In other words, running of the Scheme is possible only if industries make profits first. The industries are using automatic machines to make these profits and throwing workers out of work. Unemployment is being created by these industries. This problem is being solved by imposing taxes on these same industries. This will not do. The relief provided by the Employment Guarantee Scheme will be nullified by the unemployment created by the industries. Similarly food grains are provided cheap to urban taxpayers. Urban people have higher incomes and they pay larger taxes to the government. This revenue is used to fund the loan waiver scheme. It is possible to give the waiver only if urban taxpayers are first provided with cheap food grains, have large incomes and pay taxes. This low price of food grains forces the farmers to commit suicides. This problem created by provision of cheap food grains to the urban people is being solved by collecting taxes from the same urban taxpayers. The common man is first thrown into the furnace of poverty in this model of economic development; then programs are made to provide him with relief from these same ills. Challenge before the Finance Minister is to present a budget that reforms the basic model instead of mere tinkering with the symptoms.

Suggestion is that rates of excise duty and sales tax should be lowered on goods that are produced with a high labour content. All manufacturing units in the country can be separated into capital- or labour intensive categories. These groups must be taxed at separate rates. Rates must be made high for the capital-intensive category and low for the labour-intensive category. Companies that are providing employment to large number of workers may be subject to lower rates of income tax as well. The average rate of tax will remain unchanged but companies will strive to create more employment to benefit from the lower rates of taxes. Needless to say, this approach is exactly opposite to the proposal to introduce a single rate of Goods and Services Tax. Indeed, a single GST rate will

be simple and avoid unnecessary litigation. But it would be unwise to give up the common man's welfare for securing efficiency of tax administration. The purpose of economy is welfare. Efficiency is desirable only if it helps attain welfare.

Companies can be required to get an 'employment audit' done just as they are required to get an energy audit done. A condition can be imposed in government contracts that cables and pipelines will be laid by the use of manual labour and not excavators. Price preference can be given to suppliers that use more labour in their factories. Honours like the Padmashri can be conferred on businessmen creating more jobs than industry average.

Indian markets are required to be forced open for goods made by the developed countries using capital-intensive technologies. WTO agreement seeks to promote free trade in goods. It provides that developing countries will not impose import duties beyond specified levels. But there is no agreement to open the labour markets of the developed countries for export of Indian labour services. The GATS agreement only requires the every member country place a voluntary offer for opening services. India should work with the large number of developing countries to force open the services markets of the developed countries.

Labour laws should be simplified after these employment-generating policies are put in place. These laws are having a negative impact in the present dispensation. Businessmen use less labour and prefer to use automatic machines to escape from the legal complications of labour laws. The laws have indeed helped provide higher wages to those who are lucky to land a job but they are a discouragement to the creation of more jobs. This has led to the creation of a labour aristocracy. The socialists in general and Left parties in particular should reconsider their stand on this issue. They should demand linking of simplification of labour laws to the implementation of policies to encourage employment.

Can such interference in the workings of the market sustain in this era of free-market led globalization? The cost of production in the country will increase due to the implementation of these policies. Cheap imports made by capital-intensive technologies will flood Indian markets and the result will be a disaster. The problem is real. But another solution is available. Higher import duties can be imposed on capital-intensive products from foreign countries and subsidies can be provided to domestic labour-intensive exporters.

It will then become possible to sustain higher price in the domestic market. The Finance Minister has failed miserably in the recent budget in pushing the real economy towards employment generation.□□□