

# Enabling India's Job Renaissance: Not more cooks but a different recipe



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It was not God's will that it should take 72 years for 1.3 billion Indians to cross the GDP of 66 million Britishers yet this will happen in 2019. India is poor because too many of our people work in low productivity geographies (Karnataka has one third the number of people of UP yet has the same GDP), low productivity firms (our 63 million enterprises only translate to 19,500 companies with a paid up capital of more than Rs 10 crore), low productivity sectors (half our labour force that works in agriculture only generates 15% of GDP), and low productivity skills. But this is finally changing and we are finally on track for a \$5 trillion economy because we policy has decided that jobs change lives in ways that no subsidy ever can. But there is huge disagreement on the role of the government in creating jobs; is it setting things on fire or creating the conditions for spontaneous combustion? We'd like the make the case that the "settings things on fire" view leads to industrial policy and economic stagnation and private sector cripples – animals bred in captivity find it hard to live in the jungle- that we had before 1991. It is almost important to recognise that India does not have a jobs problem (our official unemployment rate of 6% percent is not fudged), but a wages problem. India does not have a jobs problems but a wages problem.

Poverty is about productivity and Putting poverty in the museum it belongs needs raising productivity. The productivity of a country is a complex question that involves individuals, enterprises, legislation, and much else. As Nobel laureate Robert Solow said, countries don't need more cooks in the kitchen but a different recipe. Our demographic dividend demands merciless execution that focusses on five labour market transitions: farm to non-farm, rural to urban, subsistence self-employment to wage employment, school to work and informal to formal. Lets look at each one of them in more detail:

## The Enterprise Geography of Work

On surface, India's entrepreneurship ecosystem seems healthy; 50 percent of our labour force is self-employed, and we have one enterprise for every four non-farm workers. But most of our enterprises are dwarves (Only 11% of manufacturing companies in India employ more than 200 people, compared with 52% in China), vary considerably in productivity (there is a 22-times productivity difference between a firm at the 90th and 10th percentile by size in manufacturing), and 40 percent of our labour force comprises the working poor (people who make enough money to live but not enough money to pull out of poverty).

We are just not producing enough enterprises and workers with the productivity to pay or deserve higher wages. Of India's 6.3 crore enterprises, 1.2 crore do not have an office, 1.2 crore work from home, only 12 lakh are registered for GST and only 10 lac pay Provident Fund. Only 19,500 companies have a paid-up capital of more than Rs. 10 crore.

India's regulatory cholesterol (chart pasted below) stunts enterprise growth. Improving the ease of doing business would create a Cambrian explosion of new venture creation and massively increase productivity among existing enterprises. This requires rebooting the thought world of the Medium and Small Enterprises (MSME) Ministry, improving access for non-collateral credit, getting rid of the labour and tax inspector Raj, implementing the goods and services tax (GST), growing the venture capital industry, moving employer - employee and govt. interface to a paperless –presence less and cashless ecosystem, freeing foreign investment, and getting rid of outdated laws.

	ACTS		COMPLIANCES*		RETURNS	
	Central	State / UT	Central	State/UT	Central	State/UT
Labour	29	387	674	26,484	67	1,333
Finance and Taxation	43	60	899	8,362	104	588
Environment, Health & Safety	41	20	1,907	212	87	11
Secretarial	54		2,112	-	86	
Commercial	27	75	989	3,369	54	247
Industry Specific	239	35	10,179	1,916	357	28
General (Incl Local)	9	40	107	1,516	19	88
<b>Total</b>	<b>442</b>	<b>617</b>	<b>16,867</b>	<b>41,859</b>	<b>774</b>	<b>2,295</b>
<b>Grand Total</b>	<b>1059</b>		<b>58,726</b>		<b>3,069</b>	

### **The Physical Geography of Work**

An important question is whether India should take jobs to people or people to jobs. India only has 52 cities with more than a million people; China has 375. We have 6 lac villages of which 2 lac have less than 200 people; there is no way they can become job magnets. At the same time, we also need to define urbanisation carefully; it is not just about shoving more people into Delhi, Mumbai or Bangalore. Considerable economic activity over last 10 years has come from Gurgaon near Delhi, Gachibowli near Hyderabad, Magarpatta near Pune, Whitefield near Bangalore and Mohali near Chandigarh. But unfortunately, these job magnets can't be called smart cities. The problem is not just hardware or infrastructure; the problem is governance. New cities need real mayors because impotent or unelected city leadership creates dumb, not smart cities.

There are also natural conditions for strong regional disparities over the next 20 years; six states in the south and west of India (Gujarat, Maharashtra, Tamil Nadu, Karnataka, Andhra Pradesh and Telangana) will see 50 percent of the country's GDP growth but only five percent of the population growth. But 4 out of 10 children born in the next ten years will be in the three states of Uttar Pradesh, Bihar and Madhya Pradesh.

### **The Sectoral Geography of Work**

The key challenges for this geography are low manufacturing employment and high agricultural employment. Both are closely related because the migration from farms is retarded by the lack of non-farm jobs, and the poor cannot afford to be unemployed so they are self-employed. Agriculture is not a solution because of low productivity; 240 million Indians produce less food than four million Americans. It is also important to recognise that not everybody can be an entrepreneur; our 50 percent self-employment is mostly working poor who cannot find wage employment. Most self-employment in India is self-exploitation. We don't think India will ever reach the peak of labour force in manufacturing that Britain, China or the US did at 45%, 31% or 28% but surely 11% of our labour force working in manufacturing is the wrong number. An agenda for manufacturing jobs includes the infrastructure of ports, roads, electricity and de-bottlenecking land acquisition. But it will also be substantially driven by the ease-of-doing-business initiatives.

### **The Education Geography of Work**

This geography has three challenges that are contradictory: quality, quantity and inclusiveness. We are still fighting yesterday's war of enrolment in school education (even though enrolment is more than 110 percent in most states). The Right to Education Act needs to be replaced by a Right to Learning Act that focuses on outcomes.

We also need to create new pathways to higher education; the 105 lakh and 80 lakh kids who fail the Class 10 and Class 12 exams every year fall off in the rigid and mostly physical 10+2+3 system of today. In pursuing the Twelfth Plan goal of a 30 percent GER (gross enrolment ratio of kids between 18 and 25 in college), we must remind ourselves that college is not what it used to be. 15 percent of high-end security guards in India now have a college degree and electricians get paid more than engineers. So we need new forms of college.

We need to move from periodic interventions to architecting a self-healing structure. Our skill system needs to be better aligned with what employers want. Young job seekers are unable to get a job without experience, but it is unclear how they can get experience without a job. That is why Apprenticeships are important. If we had the same proportion of our labour force as apprentices as Germany does, we would have 15 million apprentices who would be getting training and experience on the job.

The proposed National Skill University is important to create new connectivity between skills and degrees. A skill university prays to the one god of employers, has only five percent of kids physically on campus (the rest in apprentices and distance education), and only five percent of kids are doing degrees (the rest are doing certificates and diplomas with modularity to go all the way to degrees).

The Ministry of HRD must recognise that massifying higher education requires separate regulatory regimes for small research universities (whose target would be global rankings) and large vocational universities (whose target is volume and employer connectivity). This needs vocational universities which offer academic modularity (mobility between certificates, diplomas, and associate degrees), flexible delivery, and a new apprenticeship regime. We need to deregulate distance education because global MOOCs (massive open online courses) like edX, coursera, udacity, and so on cite India as one of their largest markets, and yet Indian universities are not allowed to compete nationally or innovate.

### **The Labour Law Geography of Work**

Labour laws are a complex problems but the biggest problem is a benefits regime that confiscates 45 percent of low-wage worker salary, a toxic trade union regime, and the criminalisation of politics, and an employment contract that is effectively marriage without divorce. We need to give our employees three choices in how they are paid their salary: opt out of their 12 percent employee contribution to Provident Fund (EPFO); choose to pay their 12 percent employer contribution to EPFO or NPS (National Pension Scheme); and choose to pay their ESI contribution to ESIC (ESI

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Corporation) or buy health insurance regulated by the Insurance Regulatory Development Agency. Today, ESIC and EPFO do not have clients but hostages.

The next wave of reform needs to be around inspections, Factories Act, definitions, and so on, and the tricky issue of hire and fire should be deferred for now or left to the states. We need to complete the consolidation of 44 central laws into four labour codes and give employers the choice of complying under the Factories Act or Shops and Establishments Act. But the broader theme needs to be decentralisation; the use of Section 254 (2) of the Constitution that allows states to amend central laws because 29 Chief Ministers matter more than one Prime Minister for entrepreneurship.

### **The Legislative Geography of Work**

An important priority for the new government is improving the ease of doing business and we have five suggestions. First we should implement the decision taken early this year of using PAN as the Unique Enterprise Number. Every company currently has multiple numbers that include Corporate Identity Number (21-digit), Tax Payer Identification Number for commercial taxes (11-digit), Service Tax Number (15-digit), PAN number (10-digit), Central Excise (PAN Number + 2 characters), Provident Fund number (11-digit), Profession Tax Registration Certificate (9-digit), Profession Tax Enrolment Certificate (9-digit), Tax Deduction and Calculation Number (10-digit), ESIC number (17-digit), Labour Department Registration Number (13-digit, but varies from state to state), Importer Exporter Code (10-digit), Shops and Establishments Act Registration (20+ digits), CLRA Registration (15+ digits), Labour Welfare Board (5-digit), and so on. Second all government departments should have all registrations, permissions, and licenses online with open APIs within two years. States must be given incentives and ranked based on electronic single-window compliance within a deadline. All new laws should be mandatorily born digitally native. Third the Companies Act must be revisited because it has stopped distinguishing between closely held private companies, widely held public companies, and publicly listed companies. The current lack of nuance not only hinders entrepreneurship (most enterprises in early stages are not financed by formal venture capital but loans and equity investments from friends, family and self) but is creating a trail of compliance or structuring that needs expensive lawyers and accountants. The regulation of listed companies should be left to stock exchanges and SEBI. Revisit the more-than-15 filings required, and remove the ones for the ordinary course of business (management appointments, etc.). Revisit the liabilities of key management personnel or raise the threshold to Rs 50 crore. Fourth we must review our tax compliance framework to make it transparent, consistent, and digitization driven. Tax compliance should be raised by massive doses of technology, analytics, and big data. This will require a radical review of the organisation structure, culture, and incentives of the Central Board of Direct Taxes.

Most people overestimate what policy change can do in the short run, but they underestimate what it can do in the long run. India's new recipe around job creation has many anchors: macroeconomic stability, decentralisation to states, lower costs of formalisation, focus on manufacturing, whether for India or exports, and better human capital. To paraphrase historian Samuel Huntington, "the gap between India's ambition and its reality is not a lie but a disappointment. And it is only a disappointment because its ambitions were very high." India made an unrealistic democratic gamble at Independence that has paid off. Unfortunately our economic model was nutty. We are finally fixing our economic mistakes by focussing on formal jobs.

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