

India's Response to Social Dimensions of Global Economic Crisis and Promotion of Employment Safety Nets

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1. Introduction

India, since mid seventies has emerged as a fast-growing economy with a long term annual average growth rate of around 6 percent leaving behind its earlier average of around 3 percent. The average annual growth since 2004, catapulted to around 9 percent for the next four years. In recent times, India emerged as the second fastest growing economy in the world after China. However, the sustainability of such a high growth rate has now been challenged as a result of the impact of the global financial crisis emanating from the US which has turned itself into a global economic crisis through a recession in most of the high income industrialised countries. India has realised that it is now far more integrated with the global economy than what it was used to.

In India, even in the best of times with a fast growing economy, the challenge of employment as well as poverty and vulnerability of a large segment of its population has been a major area of concern. While a higher growth was perceived by the policy regime to be a necessary condition for generating more employment and providing decent work conditions, Indian policy also recognised the need for a number of directed policies for employment creation, access to credit and a whole range of programmes in the social sector to tackle the basic problems of poverty and deprivation. A few but important steps in this direction were taken during the last four years such as a right-based rural employment programme for unskilled manual work in rural areas and steps for doubling the expenditure on education as a percentage of GDP (from three to six percent) and trebling the expenditure on health (from one to three percent). The impact of the global economic crisis on India has now thrown up fresh challenges not only in its efforts to deepen its anti-poverty and pro-social development programmes but also to maintain the high growth rate. There are clear signs of a slow down in the economy which could even threaten the realisation of a 6 percent long term growth rate if focused measures are not taken up especially in the direction of expanding the domestic demand.

Globally the growth scenario is quite dismal. World growth rate in 2008 is estimated at 2.5 percent as against 4.9 last year and then to around 1.0 in 2009. Both US and EU -27 are expected to register only around one percent growth in 2008 and predicted to have negative growth rates (i.e. a contraction of the economy) during 2009 (UN 2009). This will also have its repercussions on the employment scenario. The ILO projected that world unemployment would increase by 30 to 50 million by the end of 2009. More importantly, it estimated

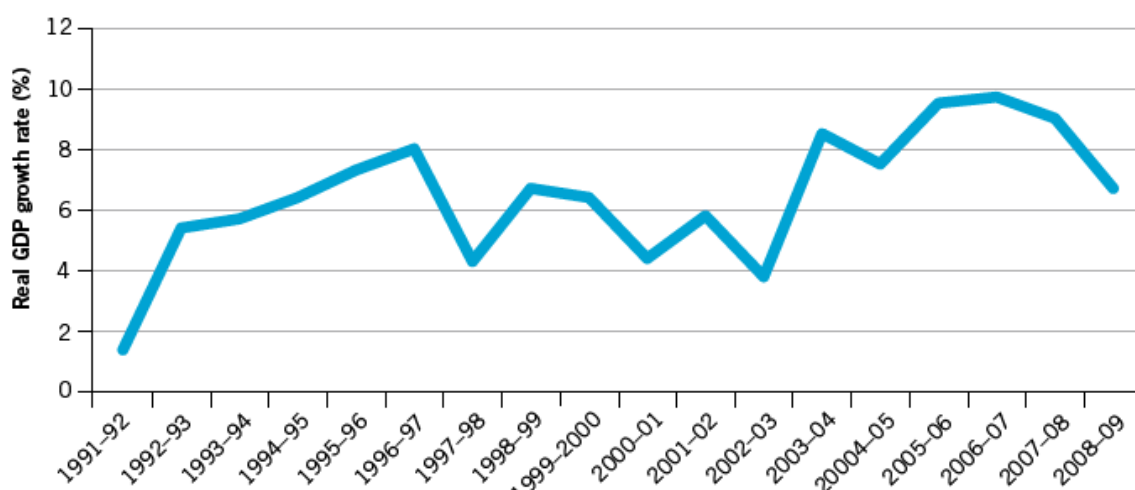
that some 200 million workers, mostly in developing countries, could be pushed into extreme poverty (ILO 2009).

It is in such a difficult scenario, an attempt is being made here to assess the social – mainly employment – dimension of the crisis on India and the policy responses of the Indian government. The Indian case seems to be one of slow down but not a recession. But the slow down, unless tackled with special emphasis on employment and livelihood security of the working poor, could turn out to be one of crisis. This is especially so because India is still a poor developing country with a vast informal sector that gives employment to 86 percent of its workforce including agriculture. Another 6 percent of the workforce is employed as informal workers (i.e. without job or social security) in the formal sector that adds up to 92 percent of Indian workforce as informal workers. This is quite a formidable figure from the point of decent work and long term development. But it also has an immediate meaning because it shows the extent of vulnerability in the face of the still unfolding economic slow down that could turn out to be a crisis. It is also pertinent here to mention that around 9 million people would enter the labour market in India annually till the end of the 11th Five Year Plan (Planning Commission 2008). Given the growth rate in labour force this will continue to be the case for the next ten years or so.

2. Overview of Crisis & Employment Situation

In the years preceding the crisis, the Indian economy was among the fastest growing in the world, with growth rate in gross domestic product (GDP) of about 9.6% in the 2005-2007. The annual growth catapulted to around 9% from 2004 and stayed such for the next four years, making it the second fastest growing economy in the world after China. However, the steady impressive growth has not translated into sufficient jobs. Additionally, whatever employment was generated was mostly in the vast informal economy, consisting of the informal sector as well as informal employment in the formal sector.

Real GDP Growth Rate, 1991-2009 (constant 1999-2000 prices, factor cost)



Source: Government of India Planning Commission, <http://www.planningcommission.gov.in/data/misdch.htm>

Although the overall impact of the global economic slowdown is not considered to be acute on India, the same had moderate impact on the Indian labour market as well. The falling profitability of Indian industries led to job cuts in general and in export oriented sectors, in particular. Labour Bureau, an organisation under Ministry of Labour and Employment (MoL&E), conducted five quarterly surveys during October 2008 to December 2009 covering sectors like textiles including apparel, metal and metal products, information technology, gems and jewellery, leather, automobiles, handloom/powerlooms and transportation to assess the impact of economic meltdown on job losses. Major findings of Surveys by Labour Bureau are as follows:

- Employment declined by 491,000 during the quarter Oct-Dec, 2008.
- Employment increased by 276,000 during Jan-March, 2009.
- Employment declined by 131,000 during Apr-June, 2009 probably due to seasonality.
- Employment increased by 497,000 during the quarter July-Sep, 2009.

As per latest quarterly quick survey for the period Oct.-Dec. 2009, overall employment has improved by about 638,000 during Dec., 2009 over Sep. 2009 due to substantial increase in employment by 570,000 in the IT/BPO Sector. The estimated employment in the selected sectors has experienced a net addition of 1.28 million during Dec, 2008 to Dec, 2009.

A detailed study conducted by V.V.Giri, National Labour Institute in 2009 indicated that most of the job losses during the economic slowdown had taken place in unorganised sector. In the organised sector, the job loss was minimal as indicated by the Labour Bureau study. Moreover, there was also considerable wage loss. The Indian economy has proved relatively resilient in the face of the global economic crisis. India's large domestic market, along with government fiscal measures, a number of social programmes and a strong banking system have helped to cushion the impact of the drop in demand in export markets. Nonetheless, the crisis initially led to job losses, particularly in export-oriented industries such as textiles and gems and jewellery.

Such numbers, however, provide a partial picture, as they cover only selected industries and relate mainly to formal employment. The situation is much harder to track in the informal economy, which accounts for most employment in India. While estimates vary according to definitions, about 86 per cent of India's more than 500 million workers are in informal employment and over 90 per cent are in what is known as the unorganized sector. These shares have changed little in recent years, indicating that India's strong and steady growth has not yet yielded a significant improvement in terms of broadening access to quality employment.

The decline in the incidence of absolute poverty has not been able to keep pace with that of growth acceleration and working poverty is high. As such, the central vision of India's 11th 5-Year Plan (2007-12) is faster and inclusive growth with a broad strategy which includes several interlinked components:

- rapid growth that reduces poverty and creates employment opportunities,
- access to essential services in health and education especially for the poor,
- equality of opportunity,

- empowerment through skills development and education, environment sustainability,
- recognition of women as agents of sustained socio-economic development and good governance.

The strategy is based on sound macro-economic policies envisaging generation of productive and gainful employment, with decent working conditions as a critical strategy element.

The Indian Employment Scenario

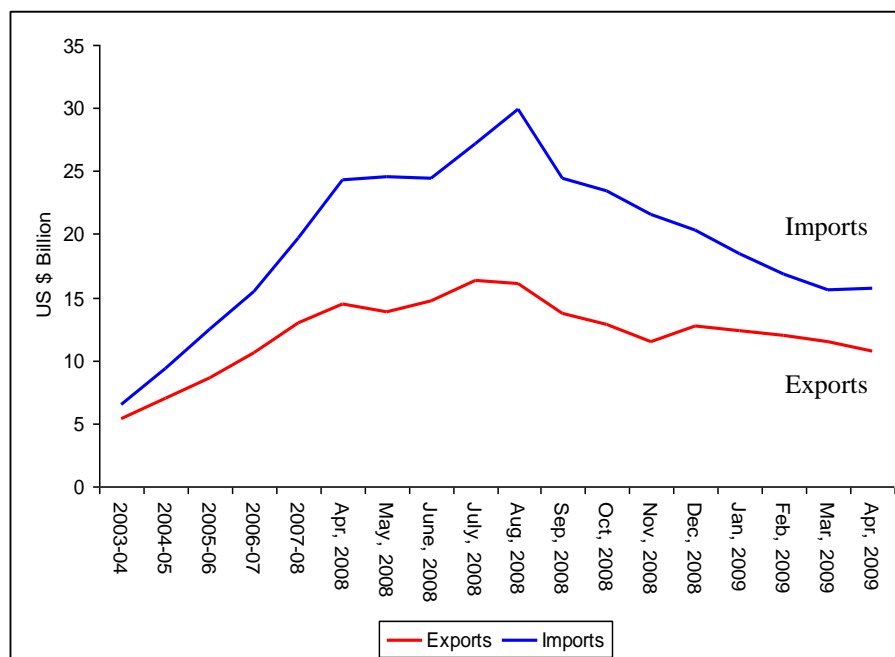
	2004-05 Millions	2008-09 Millions
Total workers	456	502
Regular workers (15%)	69	76
Self-employed (56%)	257	283
Casual workers (28%)	129	142
Informal Sector workers (86%)	392	432
Workers with casual status in formal sector (6%)	27	30
Share of informal workers who are Poor & Vulnerable (79%)	360	397

Source: NCEUS (June 2009)

India is a somewhat unique case as far as the effects of the global economic crisis are concerned. Increasingly integrated within the world economy, certainly more than at the time of the 1990s economic crisis, India has shown to be relatively resilient to the recent world-wide developments as a result of the global economic crisis as compared to several other countries. Though the recent fiscal measures, a viable domestic market, strong banking system, a number of socially-oriented programmes, etc. are providing the much-needed fallback options/cushions, a slowdown was recorded particularly for employment, given the fact that export-oriented industries and construction, many of which are employment-intensive, showed a significant slowdown with accompanied job losses.

Additionally, the drought situation in 2009 has affected agricultural production and led to rise in overall inflation and food prices. These are important concerns as, despite steady overall growth, India was experiencing slow employment growth with concerns on “quality”, even before the crisis, with its large workforce in the informal economy. The extent of vulnerability in the face of the unfolding results of the economic slowdown and the challenges are compounded by the fact that around 9 million people are projected to enter the labour market annually till the end of the 11th Plan. Given the growth rate of the labour force, this will continue to be the case for the next ten years or so.

Trend in India's Exports and Imports



(Source: Government of India, Ministry of Commerce)

Annex -1 Quarterly growth rates of the Indian economy before and after the global economic crisis

(Annex 1 captures elements of a “pre and post” economic crisis scenario of selected trends in the country.)

	2007				2008				2009	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Primary (A+B)	3.82	3.86	7.74	2.49	3.2	2.78	-0.38	2.56	2.9	1.9
A. Agr., Forstry & Fishing	4.3	3.9	8.1	2.2	3	2.7	-0.8	2.7	2.4	0.9
B. Mining & Quarrying	0.1	3.8	4.2	4.7	4.6	3.7	4.9	1.6	7.9	9.5
Secondary (C+D+E)	9.97	9.5	8.52	6.33	6.13	6.29	2.09	1.42	4.8	8.2
C. Manufacturing	10	8.2	8.6	6.3	5.5	5.1	0.9	-1.4	3.4	9.2
D. Elec., Gas & W. Supply	6.9	5.9	3.8	4.6	2.7	3.8	3.5	3.6	6.2	7.4
E. Construction	11	13.4	9.7	6.9	8.4	9.6	4.2	6.8	7.1	6.5
Tertiary (F+G+H)	10.83	10.33	10.28	11.85	10.2	9.79	10.24	8.62	7.8	9.3
F. Trade, Hotels, Trans. & Comm.	13.1	10.9	11.7	13.8	13	12.1	5.9	6.3	8.1	8.5
G. Financing, Ins., R.Est. & Bus. Services	12.6	12.4	11.9	10.3	6.9	6.4	8.3	9.5	8.1	7.7
H. Commtly Soc. & Per. Services	4.5	7.1	5.5	9.5	8.2	9	22.5	12.5	6.8	12.7
GDP at Factor Cost	9.2	9	9.3	8.6	7.8	7.7	5.8	5.8	6.1	7.9

Key Drivers to Recovery

- **High Government Expenditure, funded largely through borrowings.**
- **Increased incomes in rural areas due to greater social spending and high farm good prices;**

3. Stimulus Measures

India's government enacted three fiscal stimulus packages, in December 2008 and January and February 2009, with a particular focus on infrastructure. The packages accompanied the government's basic policy framework of promoting employment through higher economic growth. The overall aim of government policy was to foster inclusive growth and offset the impact of the global crisis by raising government expenditure, increasing rural incomes, lowering interest rates, boosting domestic demand and private consumption and promoting local investment.

The stimulus packages were also designed to rebuild confidence in the economy by :-

- easing the liquidity crisis, especially the flow of credit to medium-sized and large enterprises;
- providing further incentives to export-oriented sectors and industries;
- enhancing access to capital for investment in infrastructure; and boosting local demand for selected goods and services.

The first stimulus package of US\$4 billion in December 2008 was followed by a second package in January 2009, totalling US\$4.2 billion, to prevent a further slowdown of the economy. A third stimulus package, which at about US\$800 million was much smaller than the earlier two, was announced in February 2009. Overall, the stimulus packages totalled about US\$9 billion, less than 1 per cent of GDP.

Their main elements were:

- Funding to support public-private partnership infrastructure projects involving highways, ports and the power sector as well as non-bank finance companies dedicated to infrastructure.
- Financing institutions were allowed to raise funds from multilateral or regional institutions.
- Tax reductions and other benefits totalling about 20 billion Indian rupees (INR) for the textile, handloom, handicraft, gems and jewellery, leather and marine food sectors.
- Injection of capital into the economy. This included assets purchases and lending by the government and the central bank, as well as liquidity provisions and other support, amounting to a total of 5.6 per cent of 2008 GDP.

In addition, the government conducted studies on job losses in sectors affected by the crisis and announced packages for such sectors. The government's 2009-2010 budget proposal aims to extend the Software

Technology Parks of India (STPI) scheme for one more year to enable the information technology industry to counter the economic downturn and help India retain its competitiveness. The government also cut excise duty on a variety of vehicles, including small cars, to 12 per cent to boost demand in the auto industry, and in February 2009 the State Bank of India reduced interest rates on automobile purchase loans. As a result, passenger vehicle sales rose nearly 12 per cent in April to August 2009 from the same period a year earlier.

A key feature of India's response to the crisis has been a participatory social dialogue process. The tripartite Indian Labour Conference, held in February 2009, drew up short- and long-term strategies to cope with the employment impact of the crisis on India. As a follow-up, a Tripartite Expert Group was established, and following a series of studies and consultations this Group submitted consensus-based policy recommendations to the Ministry of Labour and Employment (MOLE). An Inter-Ministerial Group has been constituted by the MOLE to monitor the impact of economic slowdown on employment.

4. Key Policy Interventions

The following key policy areas/interventions provided fallback options and cushions for the workers and their families affected by the slowdown:

4.1 Employment Promotion & Social Protection

The major schemes currently running in the country for creation of wage employment are National Rural Employment Guarantee Programme (MGNREGA) in the rural areas and Swarna Jayanti Shahari Rozgar Yojana (SJSRY) in the urban areas.

For rural poor, the Government of India adopted a multi-faceted development strategy that promotes economic growth and also addresses needs of the poor, by ensuring their basic rights. The Mahatma Gandhi National Rural Employment Guarantee Act (NREGA) is the first- ever law that guarantees wage employment at an unprecedented scale. It aims at enhancing livelihood security of rural households by providing at least 100 days of guaranteed wage employment in a year to every household. The works undertaken under MGNREGA rejuvenate the natural resource base and address the causes of chronic poverty such as drought, deforestation, soil erosion, floods, poor rural connectivity. The documents and the legal processes enshrined in the MGNREGA Act are contributing to strengthening grassroots processes of democracy and infusing transparency and accountability in rural governance.

Although the programme predates the global economic crisis, MGNREGA launched in February 2006 has helped cushion the impact of the crisis on employment and livelihoods. For example, it has provided employment for some of those migrating from urban to rural areas as a result of job losses in export industries.

MGNREGA works are likely to improve resilience, reduce vulnerability and adaptive capacity of the production systems, farmers. Resilience and Safety Nets are in-built in MGNREGA activities as they lead to:

- Food security
- Livelihood security
- Water security
- Ecological Security
- Flood risk reduction

The following are some key aspects of MGNREGA:

- Over 3.5 billion workdays have been generated since 2006.
- In 2008, NREGP was extended from 330 districts to 615 districts.
- Families received work :

2006-07	21.0 million
2007-08	33.9 million
2008-09	45.1 million
2009-10	52.5 million
2010-11	41.1 million (upto Dec.2010)
- Women represent approximately 49 per cent of the NREGP workforce.
- Over the past three years, 340,000 road works were carried out under the programme.
- There were 850,000 water conservation works undertaken over the past three years.
- As per latest, more than 100 million people have opened saving accounts in banks or post offices to receive their payments.

The documents and legal processes enshrined in the MGNREGA are helping to strengthen grassroots democracy and promote transparency and accountability in rural governance. In addition, social audits, through which the public and civil society play a vital role in overseeing projects, have been conducted in 172,000 village governance bodies, or Gram Panchayats. Since 2006, expenditure on the programme has totaled US\$ 23.93 billion (approximately) as under:

- 2006-07 = US\$ 2.0 Billion,
- 2007-08 = US\$ 3.53 Billion
- 2008-09 = US\$ 5.45 Billion
- 2009-10 = US\$ 8.42 Billion
- 2010-11 = US\$ 4.53 Billion (upto Dec. 2010)

To promote employment among the urban poor, the government in April 2009 issued revised guidelines for effective implementation of the revamped Swarna Jayanti Shahari Rojgar Yojana (SJSRY). This is a unified Centrally Sponsored Scheme launched in December 1997, in lieu of the erstwhile Urban Poverty Alleviation Programmes. The provisioning of resources for this scheme between the central and state governments is on a

75:25 basis. The basic objectives of SJSRY are to provide gainful employment to urban poor, unemployed and underemployed; setting up self Employment ventures and provision of wage employment; community empowerment through creation of suitable community structures. The wage employment component (UWEP) seeks to provide employment to urban beneficiaries living below the poverty line by employing them for construction of socially and economically useful public assets. Under UWEP of the SJSRY, 69.0 million workdays of employment (cumulative) had been created till March 2009. There have been frequent demands during the last couple of years to put in place an Act similar to MGNREGA for urban areas as well.

4.2 Developing Infrastructure and Housing

The Government has launched Phase-II of one of India's Flagship Programme "Bharat Nirman., a time-bound business plan for rural infrastructure. The programme has succeeded in reaching basic infrastructure of roads, electricity and telephones to a large number of villages. During Phase-I, this Programme achieved most of the targets of rural water supply, rural housing and has increased irrigation potential. The proposed pro-poor infrastructure investments are expected to create additional employment opportunities.

In order to boost domestic demand and employment intensity, the Phase-II focuses on:

- Doubling the target for rural housing to 12 million homes, to be completed in the next five years.
- Setting a target for rural telecommunications coverage of 40 per cent of people living in rural areas in the next five years and expanding broadband to connect every panchayat, or village, to a broadband network in three years.
- Revamping the scheme for Common Service Centres, or e-kiosks, to provide government services to citizens in rural areas.
- Establishing new targets for rural electrification, irrigation and road connectivity.

In urban areas the Jawaharlal Nehru National Urban Renewal Mission (JNNURM) with projects of nearly Rs.50,000 crore (US\$10.7 billion) in 2007-2012 will continue to focus on infrastructure, basic services and governance reform and increase support to 60 cities to upgrade urban infrastructure and public transport. Over 1.5 Million houses are under construction for the urban poor. For the poor living in urban slums, the government has launched a massive housing programme (Rajiv Awas Yojana)

4.3 Expanding Social Security Coverage

This newly introduced Act of 2008 provides an excellent legal framework and aims to provide for social security and welfare of the unorganised sector workers. The funding component of the Act is being worked-out. In India, it is estimated that the workforce in the unorganised sector constitute more than ninety-four per cent of the total workforce in the country. On account of their unorganised nature, these workers do not get adequate social security. Some welfare schemes are being implemented but despite all these efforts, there is a

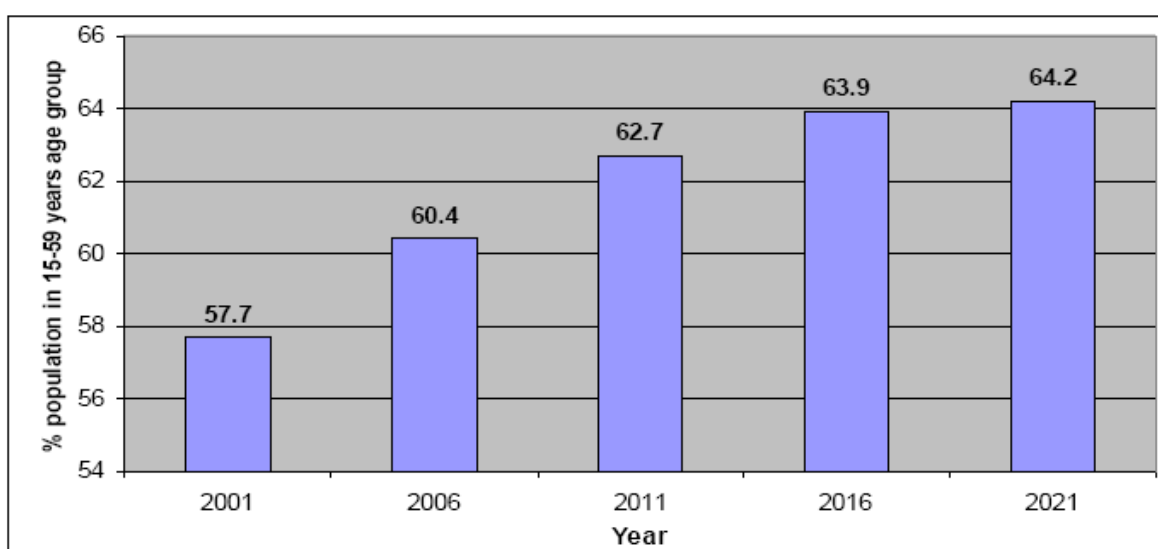
huge deficit in the coverage of the unorganised sector workers in the matter of labour protection and social security.

In April 2008, the Government of India launched a health insurance scheme (RSBY) which not only avoids the pitfalls of the earlier schemes but goes a step beyond and provides a world class model. Currently, the Scheme provides health insurance to “Below Poverty Line” (BPL) families for unorganized sector workers. The scheme provides smart card based cashless health insurance to the below poverty line workers and their families (upto five in all). The scheme offers coverage of Rs. 30,000 (US\$ 660 approximately) for any members’ hospitalisation during the year. The Scheme provides for portability of smart cards by splitting cash value for migrant workers. Under the scheme, all pre-existing diseases are covered for hospitalization expenses including maternity benefits. The coverage under the programme so far has been impressive and 23 States and Union Territories have implemented the scheme so far. About 15 million Below Poverty Line (BPL) families have been issued health insurance smart cards and 470,000 cases of insurance claims amounting to about US\$ 45 million have been settled till March, 2010.

4.4 Building Skills - Training for Recovery

India’s 11th five year Plan (2007-12) indicates that “generation of productive and gainful employment, with decent working conditions on a sufficient scale to absorb our growing labour force, must form a critical element in the strategy for achieving inclusive growth”.

Percentage of Population in Age Group of 15--59 Years



Source: Office of Registrar General & Census Commissioner (RGCC), 2006

The ability to sustain labour-intensive growth depends on the expansion of the labour force’s skills capabilities with skills and knowledge as driving forces of economic growth and social development. Other projections also indicate emergence of a young India with 800 million in the productive age group by 2015. If the present trend continues, 109 million persons will attain working age during the period of the current 5-

Year Plan. A significant share of incremental demand is likely to be for skilled labour. In comparison, at present the capacity of skill development in India is around 3.1 million persons per year. It is estimated based on NSSO data for 2004-05 that only 2% persons in the age group of 15-29 years have received formal vocational training and around 8% are reported to have received non-formal vocational training, indicating thereby that higher proportion of youth population actually enter the world of work without formal vocational training. Many of the developed economies have 60 to 80% of skilled workers.

Currently, India is passing through an unprecedented phase of demographic changes. The ongoing demographic changes are likely to contribute to an ever increasing size of labour force in the country. The Census projection report shows that the proportion of population in the working age group (15-59 years) is likely to increase from approximately 58% in 2001 to more than 64% by 2021.

In absolute numbers, there will be approximately 63.5 million new entrants to the working age group of 15-59 years between 2011 and 2016. Further, it is important to note that the bulk of this increase in the population is likely to take place in relatively younger age group of 20-35 years. Such a trend would make India as one of the youngest nations in the world.

In 2020, the average Indian will be only 29 years old, compared to 37 in China and the US, 45 in West Europe and 48 in Japan. This trend is seen significant on the grounds that what matters is not the size of the population, but its age structure. A population “bulge” in the working age groups, however large the total population, is seen as an important advantage characterised as a “demographic dividend”. Hence, this report, *inter alia*, aims to focus on the young age groups and suggest ways and means to utilise this “demographic dividend” to contribute to the overall economic growth of the country.

Another challenge is the fact that approximately 93% of the country’s workforce is in the unorganized sector, which cuts across all economic activities and includes rural and urban areas. It contributes to about 60% of the GDP. Strengthening the skill base of the unorganized sector will improve productivity, working conditions, labour rights, social security and living standards.. Thus, there is a need for increasing capacity and capability of skill development programs

India’s growing population is being recognized as strength rather than bottleneck. The demographic dividend can be capitalized only by building and constantly upgrading the skill levels of the working population. The thrust is, therefore, on creating a pool of adequately-skilled personnel in appropriate numbers, in line with requirements of ultimate users and enhanced quality training of the labour force the current 3.1 to more than 10 million per year with a multi-pronged strategy.

Against the various challenges, a National Skill Development Policy has been formulated in February, 2009 which targets creating 500 million skilled people by 2022 with the following vision:

- Skill development should harness inclusive growth and reduce economic and social divisions among Indian workforce particularly across rural-urban, male-female, organized- unorganized and traditional/ contemporary.
- Matching the emerging demands for skills across various industries and economic enterprises.
- Evolving National Vocational Qualification Framework comparable with international standards. Developing standard certification system by recognizing and including quality skills acquired through any informal system of learning.
- Greater and more active role for workers’ organizations, industry, civil society, Panchayati Raj (Village Level Governance) Institutions and other professional bodies.
- Greater reduction of poverty through enhanced earnings of skilled workers

The GOI has launched a number of key initiatives to meet this challenge. For example:

- Industrial Training Institutes (ITI) are being upgraded through Public Private Partnership (PPP) mode.
- A large well-resourced Programme on Skills Development Initiative has been launched to provide vocational training to 1 million persons in the next 5 years and thereafter 1 million persons every year in modular employable skills;
- 1500 new ITIs and 50,000 Skill Development Centres are being established

India’s skill development initiatives support employment generation, economic growth and social development processes. Skill development policy and programmes will be an integral part of comprehensive economic, labour and social policies and programmes

5 Outlook and Challenges

As far as the immediate future is concerned, it is recognized that India is now on the road to recovery and will probably recover more rapidly than other countries. Recent trends seem to confirm this trend

The Global Jobs Pact has been taken quite seriously in India by the ILO’s partners. A number of officials of India’s Ministry of Labour and Employment and trade unions have indicated that the steps being taken in India for recovery amounts to operationalisation of elements of the Pact, which the Indian constituents have actively supported.

India’s economy is on course to strengthen from last year, with GDP growth forecasts ranging from 7.2 per cent to 7.75 per cent for the 2009–2010 financial year. The government expects growth to pick up further in 2010–2011, and has indicated a target of about 10 per cent. This raises policy questions regarding the extent and timing for withdrawing stimulus measures.

However, while stronger growth may lead to a lower rate of both unemployment and underemployment, it may not alter the share of workers in the informal economy. Specific policy measures to target such workers will therefore continue to be important in the future.

Moreover, the labour force is projected to expand annually by about 9 million net until the end of the 11th Five-Year Plan and to continue to grow between 2015 and 2020, albeit at a slowing pace.

Other challenges are linked to the recent surge in food prices, reflecting the impact of the drought as well as the recovery in the global economy. Ensuring that this does not spill over into wider inflation will be of concern.

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