

# It's a wage crisis

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General Studies-Paper -III  
(Indian Economy)**

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**"India's challenge is creating a complex ecosystem of high-productivity firms."**

The debate around unemployment is unhelpful — since 1947, unemployment has bounced between 3-7 per cent of India's labour force. But reconciling this mathematical accuracy with our painful poverty — it has bounced between 25-75 per cent of our population since 1947, based on your definition of needs, wants and desires — needs an understanding of the "self-exploitation" theory proposed by the Russian economist Alexander Chayanov in the 1920s. He convinced Jawaharlal Nehru that small farms are viable because you don't have to pay yourself rent or pay a salary to yourself, spouse or kids. I make the case that one, self-exploitation — hanging out vella (idle) with low or zero marginal productivity in farms, self-employment or subsistence wage employment — has been India's labour market shock absorber since 1947. Two, this shock absorber no longer works because Indians born after 1991 expect a living wage (that meets aspirations) rather than a minimum wage (that keeps mind and body together). And three, these higher wage expectations can only be met by transitioning people to higher productivity sectors, geographies, and firms.

Our current debate confuses jobs with wages. Almost every Indian who wants a job has a job but they don't get the wages they want or need because they work in unviable sectors (48 per cent of our labour force on farms generates only 13 per cent of the GDP), unviable firms (our 6.3 crore enterprises only translate to 19,500 companies with a paid-up capital greater than Rs 10 crore), unviable entrepreneurship (50 per cent of our labour force is not self-employed but self-exploiting), and unviable geographies (2 lakh of our 6 lakh villages have less than 200 people).

Historian Ramachandra Guha reminds us that India may not yet be the most important or powerful country in the world but it is surely the most interesting. Our political parties have created the world's largest democracy on the infertile soil of the world's most hierarchical society. But we had zero chances of creating the world's largest economy on the infertile soil of the economic model articulated by the Avadi Resolution of 1955 and the Second Five Year plan of 1956. High wages need a complex ecosystem of high productivity firms and individuals: IT firms employ only 0.7 per cent of India's labour force but produce 7 per cent of India's GDP. A waiter in Chicago with skills similar to a waiter in Jaipur makes 20 times higher wages because of the productivity of the customers eating at the restaurant, and India's 20 million manufacturing SME's have at least 25 times lower productivity than Germany's 200,000 mittelstand (SMEs).

Essentially, the GDP of 114 million Maharashtrians is more than 204 million people in Uttar Pradesh because Maharashtra is more formalised, industrialised, financialised, urbanised and skilled. Similarly, the GDP of 1.2 billion Indians till 2019 was lower than 66 million Britons because socialism — capitalism without competition and bankruptcy — led to nutty economics after 1947. Three books — Capitalism in America; A History by Alan Greenspan and Adrian Wooldridge, How China Escaped the Poverty Trap by Yuen Yuen Ang, and Lost Glory; India's Capitalism Story by Sumit Majumdar — talk about choices and consequences. America amplified prosperity (35 per cent of people in official poverty have air-conditioning and 60 per cent have a car), China has used markets to move 700 million people out of poverty since 1978, while our licence-raj bred inefficiency. Politician Vasant Sathe pointed out in the 1980s that India's public sector steel industry employed 10 times more people to produce half the steel of South Koreans.

But India is breaking with its past. We have six million new registered enterprises after GST and 30 million new social security payers in three years. Our new monetary policy committee and fiscal discipline have blunted inflation from 8.33 per cent in 2014 to 2.19 per cent. Our new bankruptcy law has started recycling assets of Rs 14 lakh crore. In the 1960s, the-then RBI governor L K Jha had presciently warned that resource utilisation is as important as resource mobilisation. Digital payments have exploded from 0.1 million the month before demonetisation to 650 million last month. Infrastructure spending has doubled in the last five years accompanied by qualitative improvements in air connectivity, ports, highways and railways. Finally, a modern state is a welfare state with a broad tax base; India has more than a crore new individual tax filers since demonetisation with a 45 per cent increase in returns with incomes below Rs 10 lakh last year.

For India's 25th birthday in 1972, the late Sheila Dhar wrote a wonderful book, This India that suggested, "Indians have great patience. It is not in their nature to be in a hurry. They can wait longer, suffer more and work harder than other people." This paragraph would probably change for the 75th birthday version in 2022; the impatience of our young is changing India and her politics. And thankfully, our democracy means that the Chinese communist party strategy articulated in the 1980s — fill their stomachs but empty their minds — will not work in India. India's youth don't aspire to replace self-exploitation with the patronising pessimism of

loan-write offs, subsidies or income without work; they recognise that a hard day's work in a formal job provides dignity, strength, identity and purpose in addition to living wages.

At a deeper level, our acceptance of self-exploitation was a form of mental bondage that defied Rabindranath Tagore's dream of our country becoming a place where the mind is without fear and the head is held high. In 1910, Tagore articulated this vision in 'Chitto Jetha Bhoysunno' hoping his country would awake to a freedom where tireless striving stretches its arms to perfection. The end of our acceptance of self-exploitation embodies a freedom that would please the great sentinel. India's challenge is not jobs but employed poverty and while there is much unfinished work, it's delusional to believe we aren't making good progress. And it is unhelpful presentism to believe that policy-makers have no choice other than viewing our youth as petitioners rather than potential apprentices.

GS World Team...

### National Sample Survey Office

#### Why in the discussion?

- Recently, a report from the National Sample Survey Office (NSSO) related to employment in the country has been leaked.
- According to the reports, unemployment rates in the year 2017-18 reached the highest level of 6.1% in 45 years.

#### Main point of report

- According to the report, the unemployment rate of 2017-18 is the highest since 1972-73.
- Unemployment rate in urban areas of the country is 7.8 per cent while in rural areas it is 5.3 per cent.
- The unemployment rate among urban males between 15-29 years is 18.7%. In 2011-12, the rate was 8.1 percent.
- In the year 2017-18, 27.2 percent of urban women were unemployed, which was 13.1 percent in 2011-12.
- According to the NSSO survey, the unemployment rate in the country was 2.2 percent in 2011-12.

#### In urban areas

- Compared to the previous years, the number of unemployed youth in the country is quite high and it is much higher with respect to the 'total population'.
- During the 2011-12, the unemployment rate was 5 percent among the 15-29 age group in rural areas, which increased more than three times in 2017-18 to 17.4 percent.
- Unemployment rates in urban areas are more than rural areas. The unemployment rate here is 18.7 percent for men and 27.2 percent for women.
- PLFS is the NSSO's first annual household survey for which statistics were collected during July 2017 to June 2018.
- Labor Force Participation Rate for women (LFPR) was seen declining in 2017-18 and it remained only 23.3 per cent, but in the financial year 2011-12 it was 31.2 per cent and in 2009-10 it was 32.6 per cent.

- LFPR for men was 79.8 percent in 2011-12, which remained 75.8 percent in 2017-18. This means that more women are getting out of labor jobs than men.

#### in rural areas

- The unemployment rate of women in rural areas was 13.6 percent in 2017-18, which was 4.8 percent in 2011-12.
- In the educated rural women, between 2004-05 and 2011-12 the unemployment rate was between 9.7 percent and 15.2 percent. In 2017-18 this increased to 17.3 percent.
- The unemployment rate for educated rural men increased to 10.5 percent, which was between 3.5 percent and 4 percent between 2004-05 to 2011-12.
- During the 2011-12, the unemployment rate was 5 percent among the 15-29 age group in rural areas, which increased more than three times in 2017-18 to 17.4 percent.

#### What is it?

- National Sample Survey Office is also known as National Sample Survey Organization.
- It was established in the year 1950.
- This is India's largest organization, which regularly conducts the country's socio-economic survey.
- National Sample Survey Office works under the aegis of the Ministry of Statistics and Program Implementation of the Government of India.

#### What did NITI Aayog said?

- No such data has been released by the government.
- Government will present quarterly data.
- The data of the NSSO is completely wrong.
- According to the NITI Aayog, 7-7.8 million jobs were given.
- The country needs 7 million jobs now.
- The NITI Aayog will issue the report till March.
- Datas are being prepared for employment now.

**Expected Questions (Prelims Exams)**

**Expected Questions (Mains Exams)**

**1. Consider the following statements-**

1. Agriculture sector contributes only 13 percent part of Gross Domestic product in India.
2. IT sector in India only employs 0.7 percent but it produces 7 percent of gross domestic product of India.

Which of the above statements is/are correct?

- (a) Only 1
- (b) Only 2
- (c) Both 1 and 2
- (d) Neither 1 nor 2

**Q. Do you agree that the challenge before India is not employment but poverty? Discuss. (250 Words)**

**Note:** Answer of Prelims Expected Question given on 14 Feb. is 1(b)

