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Near jobless growth in India : An anomaly or an outcome of economic reforms

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Model Answer

Introduction

Economic growth is generally expected to generate employment, raise incomes and improve living standards. However, an economy may experience rapid increases in gross domestic product (GDP) without creating a proportionate number of jobs. This phenomenon is commonly described as jobless growth. In India, the expression “near jobless growth” captures the concern that economic expansion has not consistently translated into sufficient productive and secure employment for its growing workforce.

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India introduced major economic reforms in 1991, moving towards greater liberalisation, privatisation and integration with the global economy. These reforms accelerated growth in several sectors, particularly services, telecommunications, finance and information technology. Yet employment generation has often lagged behind output growth, while informal work, underemployment and disparities in job quality have remained significant concerns.

The central question is whether this outcome represents an anomaly in India's development experience or a consequence of the structure and implementation of economic reforms. A balanced assessment suggests that jobless growth is neither an inevitable result of liberalisation nor merely a temporary anomaly. It reflects structural weaknesses in India's growth model, the limited expansion of labour-intensive manufacturing, skill mismatches and the uneven distribution of economic opportunities.

Body

1. Understanding Near Jobless Growth

Near jobless growth does not necessarily mean that no jobs are being created. Rather, it refers to a situation in which employment grows much more slowly than economic output, or where newly generated jobs are inadequate in number, quality or productivity.

Three concepts are important in understanding this phenomenon.

Employment elasticity of growth measures the percentage change in employment associated with a percentage change in economic output. Low employment elasticity means that high GDP growth produces relatively limited employment expansion.

Underemployment occurs when people work fewer hours than they desire or perform work that does not adequately utilise their skills and capabilities.

Informal employment includes work that lacks adequate security, social protection or formal contractual arrangements. Even when employment numbers increase, the quality of employment may remain poor.

Therefore, assessing employment performance requires more than examining GDP growth. It also requires consideration of labour-force participation, working hours, wages, job security, productivity and the availability of decent work.

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2. Economic Reforms and India's Growth Experience

The economic reforms initiated in 1991 sought to address macroeconomic difficulties and improve efficiency through deregulation, trade liberalisation, greater private-sector participation and increased foreign investment.

These reforms contributed to important changes in the Indian economy.

A. Expansion of the services sector

Information technology, business-process services, telecommunications, banking, finance and professional services expanded significantly. India developed internationally competitive capabilities in software and related services.

However, many high-productivity services require specialised education and skills. Their direct employment capacity is therefore limited relative to the large workforce seeking jobs at different skill levels.

B. Growth of private investment

Liberalisation expanded opportunities for private enterprise and encouraged investment in sectors such as telecommunications, automobiles, finance and infrastructure.

Nevertheless, investment does not automatically generate large numbers of jobs. Its employment impact depends on the sector, technology, production methods and the strength of domestic supply chains.

C. Integration with global markets

Greater international trade created opportunities for export-oriented industries and access to foreign technology. Yet India did not expand labour-intensive manufacturing on a scale comparable to some successful East Asian economies.

Consequently, economic reforms helped increase output and productivity, but the transformation into a broad-based employment-generating economy remained incomplete.

3. Why Has Growth Not Generated Sufficient Employment?

A. Services-led growth without adequate manufacturing expansion

India's development pattern has been unusual because the services sector expanded strongly without a comparable transition of the workforce into modern manufacturing.

High-productivity services such as software and finance contribute substantially to output but cannot absorb all workers leaving agriculture or entering the labour market.

Labour-intensive manufacturing, including textiles, garments, footwear, food processing and furniture, can generate employment across a wider range of skill levels. Its relatively limited expansion has constrained opportunities for large-scale job creation.

B. Capital-intensive production

Businesses often adopt technologies and machinery that increase output while reducing the need for additional workers. In sectors where capital is relatively attractive or skilled labour is scarce, firms may prefer automated production systems.

Such investment can improve productivity and international competitiveness, but its employment effects depend on whether new industries and supporting services generate sufficient additional jobs.

The policy challenge is not to discourage technological progress, but to encourage forms of investment that combine productivity improvements with broad employment opportunities.

C. Persistent dependence on agriculture

Agriculture continues to support a substantial share of India's workforce, although its contribution to national output is much smaller than that of services.

Small and fragmented landholdings, seasonal work, low productivity and inadequate non-farm opportunities contribute to disguised unemployment and underemployment in rural areas.

Workers may remain in agriculture because manufacturing and modern services do not create sufficient accessible alternatives. This limits the potential for structural transformation and sustained increases in labour productivity.

D. Skill mismatch and educational limitations

Economic growth creates demand for workers with relevant technical, professional and digital skills. However, educational attainment does not always translate into job-ready capabilities.

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Weak vocational training, limited industry–education collaboration and inadequate practical experience can leave employers struggling to find suitable workers while young people remain unemployed or underemployed.

The problem is therefore not simply a shortage of jobs or a shortage of skills; it is also a mismatch between the types of jobs available and the capabilities of the workforce.

E. Constraints faced by micro, small and medium enterprises

Micro, small and medium enterprises (MSMEs) have significant potential to generate employment because many are relatively labour-intensive.

However, they may face difficulties in accessing affordable credit, reliable infrastructure, modern technology, formal markets and timely payments. Complex compliance requirements and limited managerial capabilities can further constrain expansion.

When small firms cannot grow into medium-sized and large enterprises, the economy loses opportunities for productivity improvement and large-scale employment generation.

F. Informalisation and poor job quality

A considerable proportion of Indian workers are employed informally or lack adequate social protection. Some workers enter self-employment or casual work because formal wage employment is unavailable.

Consequently, an increase in the number of people reporting work does not necessarily imply an improvement in economic security or living standards.

Low wages, unstable earnings and limited access to social insurance can weaken household consumption and constrain the development of a productive workforce.

G. Technological change and automation

Automation, artificial intelligence and digital platforms are transforming production and service delivery. They can improve efficiency and create new occupations, but they may also reduce demand for certain routine tasks.

The impact is uneven: highly skilled workers may benefit from technological change, while workers performing repetitive tasks face greater displacement risks.

Without reskilling and effective labour-market institutions, technological progress may widen income disparities even when it increases national output.

4. Is Jobless Growth an Anomaly or an Outcome of Economic Reforms?

The relationship between economic reforms and jobless growth requires a nuanced assessment.

First, reforms increased output without guaranteeing employment. Liberalisation improved competition and encouraged investment, but the resulting employment outcomes depended on the sectors that expanded and the technologies adopted.

Second, jobless growth is not an inevitable consequence of market-oriented reforms. Several economies have combined global integration with large-scale employment in manufacturing, logistics and related industries. Policy choices, industrial capabilities and labour-market institutions influence whether growth generates jobs.

Third, India's structural constraints predated the reforms. Low agricultural productivity, limited mass education, inadequate infrastructure and a relatively small modern manufacturing base existed before 1991. Economic reforms did not create all these weaknesses, although their benefits were not sufficient to resolve them.

Fourth, the pattern of reform implementation matters. Growth in high-productivity sectors was not accompanied by equally strong progress in labour-intensive manufacturing, worker training and social protection. This contributed to the uneven distribution of the gains from economic expansion.

Fifth, measurement and employment quality matter. Employment trends vary across periods and indicators. Labour-force surveys, payroll data and household employment estimates measure different aspects of the labour market. Therefore, the claim of jobless growth should be assessed using multiple indicators rather than a single statistic.

Thus, near jobless growth is best understood as the outcome of an incomplete and uneven structural transformation, influenced by economic reforms but not determined by reforms alone.

5. Consequences of Near Jobless Growth

A. Underutilisation of the demographic dividend

India has a large working-age population. If sufficient productive employment is unavailable, the potential advantage of this demographic structure may turn into a source of economic and social stress.

B. Rising inequality

When growth disproportionately benefits capital owners and highly skilled professionals, income disparities can widen. Workers in low-productivity occupations may experience limited improvements in earnings despite rising national output.

C. Weak domestic demand

Employment and wages are major sources of household purchasing power. Inadequate job creation can constrain consumption, which in turn may weaken demand for goods and services and discourage further investment.

D. Social insecurity and migration pressures

Limited employment opportunities can encourage distress migration, increase household insecurity and contribute to frustration among young people. Poor-quality work can also undermine dignity and social mobility.

E. Fiscal and developmental challenges

Unemployment and underemployment can reduce potential tax revenues while increasing demand for public support, skill programmes and social protection. This creates additional pressure on public finances.

6. The Way Forward: Making Growth Employment-Oriented

India must pursue a development strategy in which employment creation is treated as a central measure of economic performance rather than an automatic by-product of GDP growth.

A. Strengthen labour-intensive manufacturing

Sectors such as textiles, apparel, footwear, food processing, toys, furniture and light engineering can absorb workers with varied educational backgrounds.

Stable policy frameworks, reliable logistics, access to credit and improved infrastructure can help these industries expand and become internationally competitive.

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B. Enable MSME growth

Simplified compliance, timely payments, affordable credit, technology support and better access to domestic and international markets can help smaller enterprises increase productivity and employment.

Policies should also support the transition of viable informal enterprises into formal businesses without imposing disproportionate costs.

C. Improve vocational education and apprenticeships

Education and training must align with evolving labour-market needs. Industry-linked apprenticeships, practical training, digital skills and lifelong learning can improve employability.

Career guidance and stronger collaboration between educational institutions and employers can help young people make informed choices.

D. Modernise agriculture and expand rural non-farm employment

Agricultural diversification, food processing, storage, logistics, dairy, fisheries and rural enterprises can generate more productive work outside traditional crop cultivation.

Investment in rural infrastructure and market access can improve farm incomes while facilitating movement into non-farm occupations.

E. Promote labour-intensive infrastructure and green industries

Transport, housing, renewable energy, water management and climate adaptation can create employment while addressing developmental needs.

Appropriately designed public investment can crowd in private investment, improve connectivity and generate jobs directly and indirectly.

F. Support entrepreneurship and innovation

Start-ups and small enterprises can create new markets and occupations. Access to finance, mentoring, digital infrastructure and simplified business procedures can encourage entrepreneurship beyond major cities.

G. Ensure decent work and social protection

Employment policy should focus not only on the number of jobs but also on wages, safety, contractual security and social insurance.

Portable benefits, effective labour standards and protection for informal and platform workers can make the labour market more resilient.

H. Adopt employment-sensitive policymaking

Governments should evaluate major economic policies in terms of their likely employment effects, regional distribution and impact on different skill groups. Reliable labour-market data and transparent evaluation can help identify sectors that generate productive jobs.

Conclusion

Near jobless growth in India is neither a simple anomaly nor an unavoidable consequence of economic reforms. It reflects an uneven development model in which productivity and output expanded faster than opportunities for secure and productive employment. Services-led growth, limited labour-intensive manufacturing, skill mismatches, agricultural underemployment and technological change have all contributed to this outcome.

Economic reforms have generated important benefits, but sustainable development requires a stronger connection between growth, employment and social welfare. India must deepen structural transformation by expanding labour-intensive industries, strengthening MSMEs, improving skills, modernising agriculture and ensuring decent working conditions.

The success of economic growth should ultimately be measured not only by the expansion of GDP but also by the productive opportunities it creates for citizens. By placing employment at the centre of economic policymaking, India can convert its demographic potential into a durable foundation for inclusive prosperity.

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