



Is employment growth in tempo with GDP Growth?

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ABSTRACT

The nineties era, characterized by information technology revolution, has been an era of improvement in technology and managerial practices. Employment serves as a significant variable in the attainment of inclusive and sustainable growth. Present paper analysis whether the employment growth is with tempo to GDP growth at disaggregated level. It finds that that value added growth and employment growth are positively related but the relation is somewhat subdued. Thus the emerging structure of the economy is characterized by service related sectors that generate higher value addition but do not create employment in consonance with it. Need is for necessary institutions at micro and macro level for successful implementation of policies and programs.

KEYWORDS :GDP, Employment, Growth

Introduction

The nineties era, characterized by information technology revolution, has been an era of improvement in technology and managerial practices. The movement from less efficient to more efficient technology and enhancement in human capital capability has affected employment, productivity and income growth. All the sectors of the economy do not undergo technological transformation at the same time, technology of different vintages remain operative (Mathur, 1963). India has witnessed an impressive and steadily rising economic growth since the early 1990s and is expected to remain high in the medium term. The global employment elasticity figures reported by Kapsos (2005) reveal a decline in the employment intensity of growth during 1991. Employment has always figured as an important element of the growth and development process of the Indian economy. Employment growth would depend primarily on the growth of output and the degree of employment intensity of output (ILO 2009). Growth in employment and growth in labour productivity together add up to growth in GDP (Amit, 2008). India being a highly populated country, employment becomes a crucial element. Satchi and Temple (2006) find that growth in agriculture may increase poverty while growth in the urban sectors may cause it to fall. Employment acts as a link between

economic growth and poverty reduction. Employment serves as a significant variable in the attainment of inclusive and sustainable growth. Present paper on basis of GDP and employment data taken from NSSO, CSO and RBI analysis whether the employment growth is with tempo to GDP growth at disaggregated level.

GDP and Employment growth trend at sub-sectoral level)

GDP growth of economy is accompanied by declining employment growth. A comparative view of Tables 1a and b depicts the employment performance of different activities within the primary, secondary and tertiary sectors. In agriculture, during 1977-78/83 GDP growth 2.30 percent, employment growth 1.56 percent and in 1987-88/93-94 when GDP growth 4.05 here employment growth just 2.16 percent. During 2004-05/09-10 GDP growth 2.70 percent and employment growth negative -1.63 percent. Growth of employment in the primary sector, as expected, has been the lowest and seen the sharpest decline. It has, in fact, turned negative in recent years. Slow and declining growth of employment in agriculture is outcome of slow and declining rate of GDP growth. Within the secondary or industry sector, construction experienced a relatively high and increasing rate of employment

growth; it was 8.18 percent during 1999-2000/04-05, greater to its GDP growth. It has maintained 11 per cent employment growth during the 2004-05/2009-10, when total employment has virtually stagnated. Mining and 'electricity, gas and water supply, have each experienced a decline in employment during 1993-94/99-2000, after registering a high growth in earlier periods. Both registered a small positive growth in employment during 1999-2000/04-05 and 2004-

05/2009-10, with relatively declining but more GDP growth in comparison to employment growth. Employment growth in manufacturing after declining till 1993-94/99-2000, it registered an increase in the next period 5.06 percent. But it experienced a negative growth in employment during 2004-05/2009-10. Though GDP growth is fluctuating but it is always above 4 percent and turn to be eight percent during 2004-05/2009. In the services sector, 'Finance, insurance, real estate and business services', have recorded the highest increase in employment over the longer period 1977-2005 except during 1983/1993-94. Even during 2004-05/2009-10, this sub-sector of services has registered an employment growth of about 6 per cent when GDP growth 9.89 percent. 'Trade, hotel, transport and communications' register a growth of about 5 per cent during 1993-94 to 2004-05, when GDP growth above 7 percent. Employment growth slows down to 1.62 percent here GDP growth is 8.65 percent during last period. Thus it appears that in secondary sector construction follow by mining and all sub-sectors of the tertiary sector with the possible exception of 'community, social and personal services' have shown reasonably high potential for employment growth. It must, however, be noted that employment growth is not in quantum with GDP growth.

Table 1a: India's Compound growth rate of gross domestic product at factor cost at

constant price, 2004-05 at disaggregate level

(in percent)

Year	Agriculture	Mining & Quarrying	Manufacturing	Electricity, Gas & Water Supply	Construction	Transport and Communications	Insurance, Real Estate & Business Services	Community, Social & Personal Services
1977-78/1983	2.30	6.21	4.29	5.84	1.15	4.20	5.27	4.29
1983/87-88	-0.09	4.44	3.68	7.29	3.43	4.74	6.95	5.44
1987-88/93-94	4.05	5.56	4.40	7.13	4.49	4.74	7.89	4.45
1993-94/99-00	2.87	4.59	6.20	5.93	5.43	8.17	6.59	6.97
1999-2000/04-05	1.26	3.82	4.99	3.53	7.73	7.33	5.62	3.81
2004-05/09-10	2.70	3.45	8.01	5.87	7.63	8.65	9.89	6.79

Source: Calculated from *National Accounts Statistics*, CSO.

Table1b: Sector-wise compound growth rate of employment in India at disaggregate level

(in percent)

Year	(in percent)							
	Agriculture	Mining & Quarrying	Manufacturing	Electricity, Gas & Water Supply	Construction	Trade, Hotel, Transport and Communications	Finance, Insurance, Real Estate & Business Services	Community, Social & Personal Services
1977-78/1983	1.56	7.14	3.08	12.39	6.84	4.12	7.68	3.01
1983/87-88	0.28	5.34	4.66	7.21	13.91	3.49	1.41	0.31
1987-88/93-94	2.16	1.69	0.05	4.37	-0.11	3.65	5.24	6.68
1993-94/99-00	0.05	-2.11	1.62	-5.89	6.38	5.68	5.28	-1.48
1999-2000/04-05	1.40	2.41	5.06	3.22	8.18	4.62	9.62	2.41
2004-05/09-10	-1.63	3.00	-1.06	1.02	11.29	1.62	5.77	0.99

Source: Calculated from different rounds of NSSO

To evaluate the relation of economic growth and employment, in the absence of compatible data, value added growth and employment growth for two substantially overlapping periods can give approximately meaningful results (table 2). During the new policy regime the response of different sectors in terms of value addition and employment generation growth is different. Primary sectors 'agriculture, forestry and fishing' and 'mining and quarrying' fall in the low value addition category. Manufacturing comes in the slightly above the national average mark and service sector, in general, comes in the higher value addition growth range. Low value addition and low employment growth are clearly visible in case of 'agriculture, forestry and fishing', 'mining and quarrying', and 'manufacturing'. Sectors with higher value addition growth but very low employment growth are 'electricity, gas & water supply', and 'financial, insurance, real estate & business services'. Further, the sector with high value addition growth and high employment growth is the 'construction'. On the whole, the Karl Pearson's coefficient of correlation of 0.579, implies that value added growth and employment growth are positively related but the relation is somewhat subdued. Thus the emerging structure of the economy is characterized by service related sectors that generate higher value addition but do not create employment in consonance with it.

Table2: Sectoral growth rates in value added and employment in India

Sector	Growth Rate	
	Value Added Growth (1981-82 to 2009-10)	Employment Growth
Agriculture, forestry & fishing	2.91	1.02
Mining and quarrying	5.14	1.37
Manufacturing	6.19	2.51
Electricity, gas & water supply	6.74	1.37
Construction	6.30	6.48
Trade, hotels & restaurant	7.28	4.76
Transport storage & communication	8.34	4.44
Financial, insurance, real estate & business services	6.06	2.38
Total	5.87	1.92
Correlation between value added and employment = 0.579		

Source: Planning Commission (2011)

Conclusion and suggestions

Value added growth and employment growth are positively related but employment growth is not in tempo with GDP. The emerging economy is characterized by service related sectors that generate higher value addition but do not create employment in consonance with it. For effective tackling of both growth and employment problems, the policy makers have to work simultaneously on sustaining high Gross State Domestic Product (GSDP) growth rates and increasing employment growth

without affecting labour interests. It is proposed that the state should implement a comprehensive "employment policy" with the following pillars: Acceleration of growth; Transformational changes in education; Promotion of entrepreneurship; Effective labour market management; Expansion of employment information systems. Need is for necessary institutions at micro and macro level for successful implementation of policies and programs.

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