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Making labour more employable

The Budget, by choosing to invest in and develop human capital, has made a great beginning

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OF ALL THE FACTORS of production, labour is the most important as its meaningful interaction with land and capital results in economic output through various layers of technological development and entrepreneurship. Indeed, India's young population is a key differentiating factor against the backdrop of an ageing global economy. Over the next decade, our country is estimated to account for 25% of the rise in the world's working-age population, adding 116 million people to the global labour force.

As I see it, much remains to be formally done on the employment front. The allocation of labour remains lopsided, with 49% of the nation's labour force employed in agriculture (generating only 14% of GDP), while 30% is employed in the services sector (generating 54% of GDP). With investment in education, skill development and policy support to labour-intensive industries, the government can effectively utilise untapped resources on the demographic front, generating multiplier effects for domestic growth.

In this regard, the Union Budget FY19 has rightly oiled the engines of India's demography. The fiscal exercise has taken a comprehensive approach to investing in a multitude of sectors, to target each segment of India's population.

Focus on rural India: Any tangible improvement in employment is unlikely without a Bharat focus, with 66% of the population residing in rural areas. The Budget estimates that FY19 allocation of ₹14.3 lakh crore for creation of livelihood and infrastructure in rural areas would create employment amounting to 321 crore person days.

The government also maintained ₹550 billion budgetary support for the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA)—the flagship rural employment programme benefiting 21.9% of all households. Astutely aligning the scheme of developing Gramin Agricultural Markets (GrAMs) with MGNREGA will ensure that employment generation is linked with establishment of agriculture markets, harnessing synergies of both reforms.

Sops for formal sector: To further formal sector employment, the government's decision to extend to all sectors its contribution of 12% of wages of new employees in EPF for the next three years is a commendable step. India's womenomics got a further boost with women employees' contribution reduced to 8% for the first three years of their employment, from the current level of 10-12%.

Targeted support to labour-intensive industries: The Budget has adopted a smart targeted approach investing more in labour-intensive sectors such as MSMEs and infrastructure. In the case of MSMEs, the adage 'small is beautiful' clearly holds true, as the sector forms the backbone of the economy, contributing 45% towards India's exports and employing more than 100 million people.

The Budget has reduced the tax burden on MSMEs by extending the benefit of reduced 25% corporate tax to companies with a turnover of up to ₹250 crore, which will create large-scale employment in the sector. In addition, 24% increase in the allocation of infrastructure, to a high of ₹5.97 trillion, will further the engine of India's employment.

Investment in education: Investing in improving education and skill level of the population typically leads to a step-up in labour productivity. An educated and skilled labour force is able to adopt new technologies quickly and shift towards high-growth sectors with ease.

Recognising this, the Budget plans to invest in digitisation of education, and there is a new scheme called Revitalising Infrastructure and Systems in Education, or RISE, for which ₹1,000 billion has been allocated for the next four years. The imposition of the health and education cess will fund government coffers with ₹110 billion, dedicated to India's education and health requirements. While it will take some time for the investment in education to bear fruit, measures for skill development introduced in the Budget will have a shorter gestational period.

All in all, the Union Budget has made a great beginning to unlock India's demographic dividend by choosing to invest in and develop human capital. This investment will reap rich dividends in the future by putting India firmly into the double-digit growth path and, more importantly, ensure that the benefits reach every section of the economy.