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India's employment paradox

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There is an interesting paradox facing India's labour market. On one side, you need to provide jobs to a rapidly expanding workforce. On the other, there is the overwhelming need for skilled labour across sectors. This article will high- light two interventions that can help address this twin challenge.

Post-liberalization, the economy has experienced a monumental structural shift as it moves from a predominant agricultural base to one centred on manufacturing and services. Efforts to develop the country's huge and youthful human resource, coupled with two decades of robust economic growth, have rapidly expanded the supply of skilled labour.

It is estimated that during the 11th Five-Year Plan, nearly 45 million people will be added to the work- force. It is critical for social stability and sustainability of the country's economic growth momentum that the new additions, including those likely to be displaced from agriculture, are adequately equipped to access employment opportunities.

Broad-based economic growth is a prerequisite to meeting these challenges. India has introduced labour market reforms and sought to en- courage private investments in high- employment sectors. The National Skill Development Mission (NSDM) was launched with the objective of increasing the supply of labour with vocational skills through innovative public-private partnerships. Such supply-side initiatives, while important in expanding the labour supply, will still leave us floundering. How do we ensure the efficient matching of supply and demand for labour?

Labour markets in India are localized and fragmented, and there exist institutionalized restraints on geographical and occupational migration. Further, information asymmetry between employers and job-seekers introduces search and co-ordination costs. Numerous inefficiencies and frictions amplify transaction costs.

In the circumstance, the simplest and most effective way to match sup- ply and demand could be through an Internet portal that links the universal database of available labour with that of job opportunities. This would first require state-level labour departments to establish reliable and continuously updated web-enabled job exchanges. Such exchanges across the 5000-plus districts in the country can then be integrated through a national employment portal (NEP).

Making this database accessible to private placement agencies on a transaction fee-based model will be the final step. The market will equilibrate the supply of labour--aggregated in all government-driven employment exchanges--with demand-- represented by placement agencies.

This requires limited investments and could deliver the biggest bang for the buck. It will ensure efficient utilization of investments made in human resource development, and de-clog the important labour supply channels. It will also lower the start- up costs for new businesses and thereby promote fresh investments.

In many respects, NEP would re- present the classic public good. Since its social benefits exceed private benefits many times over, no private agency would have the incentive to develop such platforms. The government has to step in. This portal will result in all round efficiency improvements. Just as employers will have a larger pool of prospective employees to choose from, labour will have access to more job opportunities. Placement agencies can use the choice available to do more qualitative screening of candidates for their clients. The result will be more optimal outcomes for everyone--employees, employers, and placement agencies--and greater economic activity.

Fortunately, the spectacular proliferation of information and communication technologies provides several interesting possibilities to facilitate such matching. A labour database that can be validated with an Aadhaar number will facilitate easy up- dating and additions using say, a mo- bile phone interface. Over time, NEP can slowly evolve into a self-serviced platform, where anybody can register after following certain protocols and access the labour market.

The second intervention involves a more innovative approach to expand the supply of vocational-skilled labour to meet the growing demands from industry, trade and services.

The National Skill Development Corporation, set up as part of NSDM, seeks to “catalyze the creation of large, quality, for-profit vocational institutions by providing viability gap funding to build scalable, for-profit vocational training initiatives“. But it has made limited progress with advancing its agenda. Its success re- quires an enabling policy framework that institutionalizes the sourcing of trainees from schools and colleges and subsidizes their training costs.

The government can issue vocational training vouchers to prospective students, selected through de- fined criteria, with some basic qualification. The course-independent vouchers will subsidize a part of the training expenses including tuition fees and boarding charges. A basic subsidy can be announced each year, which would be reimbursed to the institutes on production of the vouchers. The institutes could offer a variety of vocational courses, letting students choose on the market signals. They would compete to offer courses and attract students.

The vouchers issued can be linked with the recipient's Aadhaar number to simplify administration and reimbursements, prevent leakages, and ensure portability. The trained students should then be linked to NEP.

In other words, leveraging the potential of NSDC through vouchers, and linking it with NEP can be a big step towards addressing what is arguably India's biggest economic challenge.