

Reading Room

Diagnosis and treatment: a foreign survey feels the economy's pulse

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OECD Survey: Features

- OECD urges consolidation of 46 central and over 200 state labour laws
- Stringent labour laws are leading to decline in regular employment and rise in contractual jobs
- Lack of flexibility accentuating labour market inequalities, leading to rising urban poverty rates
- Manufacturing units in formal sector replacing labour with capital investment
- Quiet reforms in some states providing more fluid labour markets

Have you ever so much as looked at the Union budget document and wondered what the government spends on health, primary education or rural development? You would be foxed by the lack of clarity.

This is where the first Economic Survey of India by the Paris-based Organisation of Economic Cooperation and Development (OECD) has much to offer to planners and academia in terms of analytical insights and suggestions.

"Poor educational performance affects labour market results; illiterate people find it tougher to get jobs."

Finance secretary D. Subba Rao explains its value: "It is impossible to say anything original about India. Almost anything that needs to be said has been said." But he added, "the OECD report has been a clear value addition in terms of saying things differently..."

"It

scores on two important things. It puts together a very confident analysis of where we stand and where we need to go, and how we can get from here to there. More importantly, it marshals evidence on scholarship in support of its findings and recommendations. Therein lies the value addition of the OECD Economic Survey," Rao adds.

The survey, a result of 22 months of analytical study by the forum of 30 rich nations, "is meant to generate dialogue not only in India but also provide a better insight into the Indian market for potential investors in the member countries," says Angel Gurría, OECD secretary-general.

While all assessment reports about India point to the deficiencies in infrastructure and social sectors and how these shortcomings could pull down economic growth from the current levels of 8.5-9 per cent, the OECD reports go a step forward in analysing policies and trends with special focus on employment generation.

While commending employment growth over the past decade, the OECD stresses: "These gains have arisen primarily in the unorganised and informal sectors (employing less than 10 people) of the economy where productivity and wages are generally much lower than in the formal organised sector. It is only India's organised sector that is subject to labour market regulation, and here employment has fallen." As a result, the share of organised sector industrial employment has fallen from 15-20 per cent in 1981-98 to 10 per cent in 2004.

Compared to the OECD countries, the report finds that Indian labour laws for the organised sector are more stringent, excepting Portugal and the Czech Republic. India scores better on temporary and fixed term contracts. The report also says that compared to OECD countries, the share of labour income in value-added manufacturing in India is low while capital intensity is relatively high.

Based on its own survey instruments, the OECD team found "job security regulations limit job turnover in sectors that for technical or market structure reasons need more frequent adjustment of employment to be more competitive." Further, it states, "the more restrictive labour amendments had a perverse effect on the poor as they tended to increase urban poverty rates."

Finance ministry officials feel the OECD report is "of a higher form" than other similar reports, including the annual economic survey report presented in Parliament before the Union budget.

Interestingly, the finance ministry recently held parleys with users of the economic survey for feedback on how to improve the report, described by economist Shashank Bhide of the NCAER as "a valuable document for observers of economy."

Rao, however, feels the official economic survey can be improved upon. "The government survey is a factual thing and does not express so many opinions and I don't think there is so much of an analysis going into it. The economic survey has become more of a routine exercise—filling up blanks and changing numbers. So anything outsiders do adds value," he says. Declining to comment on whether the OECD observations would find a place in the next budget, Rao says that "certainly anything like this will help in future."

Alok Sheel, secretary, Economic Advisory Council to the Prime Minister, feels the methodology used by the OECD economic department for analysis is very good, especially the employment protection legislation (EPL), "to study flexibility of labour rules and give a nuanced insight into productivity."

The benchmarking of India with OECD countries, as also China and Brazil among others, has been found very useful by experts. Rajiv Kumar of ICRIER particularly points to the India-China comparison in export of goods and services as a percentage of the GDP. The OECD report also provides for a 10-year time lag considering India embarked upon reforms much later than China.

Kumar feels the report would also serve to dispel some of the fears on labour laws in India. "The perception is of labour being expensive in India. Though domestic firms learn to live with the system, for a foreign company or a small entrepreneur wanting to scale up, the regulations can be a deterrent."

The potential for India to clock a higher growth than the 9.4 per cent witnessed last year may be there, but that is not inevitable as it requires identifying constraints to growth and unlocking the growth potential, point out experts.

Rao admits, "Job creation will be a formidable challenge—the usual answer is that services sector will help absorb more people seeking jobs, but as the OECD report points out, the services sector has already absorbed a lot of people and is now providing more off low skill and low productive jobs."

"We have got to provide jobs for 100 million people who are going to come out of agriculture into manufacturing. So far the movement has mostly been from agriculture to services. Unless we concentrate on the manufacturing sector and unlock its potential and find more semi-skilled jobs, we will not be able to resolve the employment problem."

Though the OECD is optimistic of India's new SEZ route providing employment to 500,000 people with investment amounting to \$6 billion by the year end, Gurria warns that the zones can only "perform a useful

short-term role in overcoming drawbacks and showcasing the positive impact of a number of economic reforms in a real-life setting."

To unlock the potential of Indian human capital, the OECD survey has stressed the need to raise the quality of education and put more focus on higher education. "Poor educational performance also affects labour market outcomes, with illiterate people finding it difficult to obtain regular employment," it says.

A disquieting reminder is that despite gains in literacy, Indian children on an average receive only 10 years of education—three years less than in many developing countries, raising the spectre of India becoming a hub of low-skill labour, frittering away the advantage of a young workforce.

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