Q11

Economic growth in the recent past has been led by increase in labour activity." Explain this statement. Suggest the growth pattern that will lead to creation of more jobs without compromising labour productivity.

UPSC Civil Services Mains 2022 · GS III · 15 marks · Indian Economy

Indian Economy and issues relating to planning, mobilization of resources, growth, development and employment.

Core demand of the question

- Explain how recent economic growth has been led by an increase in labour activity
- Suggest a growth pattern that creates more jobs without compromising labour productivity

Revision summary

Recent Indian growth was partly an employment and participation rebound after the pandemic, not only a productivity surge.

Much of the extra activity was self-employment and informal work, which can raise GDP while output per worker stagnates.

A durable pattern is labour-intensive tradable manufacturing and services whose productivity already exceeds agriculture.

Gati Shakti, food processing, care, logistics, skilling and MSME credit should move workers into those sectors.

Public works can bridge shocks; they should not be the long-run growth model. Do not protect jobs by blocking tools.

Introduction

Growth can come from **more people working**, from **each worker producing more**, or from both. In several recent Indian years, headline GDP recovered while surveys showed a rebound in **labour force participation and employment**-especially self-employment and rural work-after the pandemic shock. That is growth led in part by **labour activity**, not only by a productivity boom in a few firms. The policy task is more jobs **and** rising output per worker.

Body

How growth was led by labour activity

- **After 2020, output rebound coincided with people** returning to the labour force**:** women and men who had left paid work re-entered, and usual-status and weekly-status employment recovered in Periodic Labour Force Survey releases.
- A large share of that activity was **self-employment and unpaid family work** in agriculture and petty trade, not factory payrolls. More hands in the field raise **aggregate labour input** even if each hand produces little extra.

- **Construction and informal services** absorbed labour when formal hiring was cautious; their output shows up in GDP as activity more than as machines.
- Contact-intensive services (trade, hospitality, transport) grew by **putting people back to work** as mobility returned-hours and headcount, not only capital deepening.
- This pattern can lift GDP while **labour productivity** (GDP per worker) stays flat or dips, because the extra workers enter **low-productivity** tasks. That is the warning inside the good employment print.

Why that mix is incomplete

- East Asian catch-up paired labour absorption with **manufacturing productivity**. A pure activity rebound risks **job-rich stagnation**: everyone busy, few earning a rising real wage.
- Women's re-entry into unpaid farm work is activity; it is not the same as **regular wage jobs**.

Growth pattern for more jobs without sacrificing productivity

- **Labour-intensive tradables with rising productivity:** apparel, leather, food processing, electronics assembly that **learns** (PLI plus MSME suppliers), not only one capital-heavy refinery.
- **Care, logistics, housing and repair:** urban jobs that machines do not yet replace, paired with **skilling and toolkits** so output per worker rises.
- **Farm to non-farm in the same district:** food processing, warehousing and construction under **PM Gati Shakti** so surplus farm labour leaves disguised unemployment **into** higher-value work, not into idle migration.
- **Formalisation that does not kill the unit:** EPFO-linked hiring incentives, easier compliance, and credit (CGTMSE, TReDS) so a firm can add a second shift instead of staying a one-person shop.
- **Public employment as a bridge, not a destination:** MGNREGA and urban wage programmes stabilise activity; skills and apprenticeships must move workers into **higher-productivity** private or public services.
- **Do not chase jobs by freezing technology.** Productivity comes from tools, power, logistics and skills. The pattern is **more firms that hire and upgrade**, not a ban on machines.

Rule of thumb

- Raise **employment elasticity** in sectors whose productivity is already above agriculture, and raise **productivity** inside those sectors with clusters and power-not by packing more unpaid family labour onto the same plot.

Flow diagram

GDP rebound -> Labour activity hours headcount

Labour activity hours headcount -> Self-employment farm informal

Self-employment farm informal -> Weak productivity risk

Job-rich higher-productivity path -> Labour-intensive manufacturing

Job-rich higher-productivity path -> Care logistics processing

Job-rich higher-productivity path -> Skills power Gati Shakti

Labour-intensive manufacturing -> Jobs with rising output per worker

Care logistics processing -> Jobs with rising output per worker

Skills power Gati Shakti -> Jobs with rising output per worker

Conclusion

Recent growth partly reflected more people working again, often in low-productivity self-employment. That lifts GDP and activity; it does not guarantee rising living standards. The needed pattern is labour-intensive manufacturing and services that still invest in skills, power and logistics so jobs and productivity rise together.

Facts & figures

PLFS

Periodic Labour Force Survey: source for labour force participation and employment status after the old NSS rounds.

Labour productivity

Output per worker (or per hour). Can fall if GDP rises only because more people enter low-output work.

Employment elasticity

Responsiveness of employment to output growth; high in construction and some services, often lower in capital-heavy industry.

PM Gati Shakti

2021 National Master Plan to cut logistics cost so labour-intensive manufacturing can compete.

Production Linked Incentive (PLI)

Production Linked Incentive: scale in notified sectors; job gains depend on linking MSME suppliers, not only champion plants.