

Chapter 1

Introduction

1.1 Economic growth

The problem of economic development, as Lucas (1988) states it, is the problem of accounting for the observed diversity in levels and rates of growth of per capita income across countries and across time. It is the process by which a nation improves the social welfare for each individuals in terms of their economic and social development. Economist Amartya Sen points out that economic growth is one feature of the process of economic development and not the only feature. Economic development is very often confused with industrial development and the best way to study the level of economic development over a period of time is to analyze economic growth. The challenges of economic growth are very different in different countries. The developed countries face a certain set of issues that look very different from the issues faced in developing countries.

Economic growth is a fundamental requirement for the development of a country. For companies to invest and an economy to grow, stable environments, efficient institutions, functioning markets and access to sustainable financial services are all required. Economic growth also captures the diversity and sophisticated productive capabilities embedded in its exports and how far it could further diversify by expanding the potentiality and therefore it helps in economic projections of each country. It would not be appropriate to consider one single pattern of growth for all the regions of the world. The developing countries such as China and India are different categories of countries with more or less similar growths and patterns and are growing faster than the rest and are converging towards the developed world. According to Cambridge, Massachusetts the concentration of global economic growth has moved since the past few years from China to the fast developing nation India, and it predicts India is likely to be in that position for the next decade or so. It is predicted that these emerging markets' economic growth will continue to outpace the economic growth of advanced economies.

A country's economic health can usually be measured by looking at that country's economic growth and development. Economic growth is important, according to Barro &

Sala-i-Martin (2007:6) “If we want to understand why countries differ dramatically in standards of living we have to understand why countries experience such sharp divergences in long term growth. Even small differences in these growth rates, when cumulated over long time period, have much greater consequences for standards of living than the kinds of short-term business fluctuations that have typically occupied most of the attention of macroeconomists.” Economic growth led to substantial reduction in the world’s poverty rates. Where the regions experienced highest economic growth it resulted in reducing the poverty to a large extent.

An economy is judged by its income, population and its quality, infrastructure and other resources. The rate of growth of an economy is simple and summary measure of how quickly the average income of the population is rising. Though the percolation effect of the growth is not automatic, it has been observed that poor growth is a major cause of continuing high poverty and that strong growth in particular has a perceptible impact in reducing poverty. If the growth is not multi-dimensional such as not focussed on reduction of poverty as one main priority and targeting the benefits to only the elite classes of the society then this may lead to consequences of social tensions and political instability which will again deter the economic growth process. This brings us to the dimension of sustainability viz. Social sustainability. Closely juxtaposing with the issue of poverty is that of unemployment. In the early debates on reforms, proponents of liberalization typically contended that although new technology displaces labour, it also lower costs and prices, and hence expands the demand for labour in the long run. Poverty and prosperity of a region may not entirely depend on the growth of manufacturing industries of the modern type, but it does exercise an important influence on the income and employment situation. The economic report of India has shown that despite having high growth, there have been worrisome instances on low agriculture growth, poor and low-quality employment growth, larger rural-urban divides, low human development, gender and social inequalities, and regional disparities. Rightly, the central government has emphasized since the Eleventh Plan period on the need for inclusive growth.

Basnett and Sen (2013) in their study identifies an evidence which suggest that growth in manufacturing and services have a strong positive impact on employment whereas growth of employment in agriculture sector is mainly limited in nature, while value-added growth agriculture sector has relatively a larger impact on employment. The study further finds that growth in sectors like textiles industry and agri-business/food processing units suggest that contributes positively to job generation.

Melamed, Hartwig and Grant (2011) studied 24 growth episodes from the 1980s, 1990s and 2000s and found that growth in services is becoming relatively more important in augmenting employment generation than from manufacturing sector. The findings also revealed that there is evidence that different sectors had different intensity of impact on the employment creation. In most cases out of the total, poverty had fallen. In fifteen of these cases there has been a rise in employment in services, in ten cases there has been a rise in industrial employment only, and in six cases there is also a rise in employment from agriculture. In six of these cases there was rise in employment in two of the three sectors, but there was no case of increased employment in all three sectors at the same time. Similarly, Kapsos (2005) also finds that service sector had the highest employment elasticity among all the sectors globally at 0.61 percent.

Administrative policies for regional development are considered politically sensitive. They play an important role in the change of atlas of the world. Therefore, relationship between regional development, administrative policies, institutional characteristics of the nations and ecological factors has always been a question of interest to economists and other behavioural scientists. In addition the relationship between regional development, locational advantages, availability of natural resources and institutional characteristics of the regions is of equal importance. It has been frequently claimed that major determinants of social and economic development of any region is determined by a set of factors specific to that region. These factors can be broadly classified under: a) Geographical factors, b) Religious factors, c) Trade factors, d) Administrative factors e) Human factors

Zerby and Khan (1984) categorized the development indicators into two kinds namely i) quality of life indicators and ii) sources and facility indicators. It is common opinion that quality on life indicators depend on resource and facility indicators. So it seems reasonable to hypothesize a cause and effect relation between the rank or level of regional development and factors of development. For testing correlation between development of region and factors of development, the following four hypotheses are proposed.

- a. Development of regions is positively correlated with administrative efficiency.
- b. Development of the regions is positively correlated with human development indices.
- c. The administrative efficiency of regions is positively correlated with human development of the regions. (Khalil and Khan, 2003)

The performance of States in the post reform period has not been uniform. It is indeed necessary that we do something here especially given that the 'poorer' states have continued to remain 'poorer' through this growth episode, adding another dimension to the exclusionary sub-plot to this growth story. Undoubtedly all of the States have done well in terms of growth over the reform period but the leading States have consolidated their position and further pulled away. The poorer States on an average were displaying significantly lower growth rates in the early reform period as compared to the leading States.

1.2 Economic Growth and Employment:

Post independence, India followed inward looking development policy associated with a low annual growth rate of 3.5% of GDP. By the early 1980s it was realized that there was a need for recasting economic policies in the form of economic reforms. Major Economic reforms in India have been initiated in a systemic manner since 1991 under Liberalization, Privatization and Globalization (LPG). Though India has recently emerged as one of fastest growing countries in the world, poverty decline is only marginal. Employment is an important channel through which economic growth impacts poverty. Poverty and exclusion are two sides of the coin. Thus the dynamics of employment is important in understanding issues of inclusion and exclusion in the

process of development. The unemployment rate in India has flip-flopped since the reforms of 1990s. The unemployment rate by current daily status has increased from 6.1% in 1993-4 to 7.3% in 1999-2000 and further to 8.2% in 2004-5. However it came down to 5.6% in 2011-12. Though the demand for labour increased after the economic reforms the increase was not even in rural and urban India between men and women and regular and casual workers. The nature of unemployment in India is also changing. Today, unemployment rates are much higher among educated individuals, within this category, the largest chunk comes from urban India. (Dev and Venkatanarayana, 2011)

One of the important objectives of development is removal of poverty. While there are many short term palliatives – by way of poverty alleviation schemes – the only empowering solution has to be found in creating employment, which presupposes employability. That alone will help us attain inclusiveness which has to be the goal of Indian policy. The employment has been increasing over the reform period and the poverty has been declining, this much is established, although there is debate about the exact figures. The quality of employment is another matter and so are the correlates of poverty. One can never be satisfied and much more needs to be done. There is need to create an optimal mix of ‘capacity building’ and ‘safety net’ approaches, hence well directed efforts have to directly address the quality of growth.

What are the critical success factors that facilitate the increase in employment, assets and production capabilities? Two classical economist Smith and Mill did indeed write a great deal on the growth of real income per head, they saw income as one of several different means to important ends, they discussed extensively the nature of these ends very differently. (Rodrik, 2012) Creating decent jobs for its growing manpower has also been one of the challenges faced by India. Demographic changes magnified the challenge. To reap the benefits of demographic dividend manpower planning is required on a broad scale. India is ill prepared for this challenge, thus facing penalties.

The diverse penalties of unemployment are

- Loss of current output
- Social exclusion and loss of freedom
- Skill loss and long run damages
- Psychological harm
- Ill health and mortality
- Motivational loss of future workforce
- Loss of human relations and family life
- Racial and gender inequality
- Loss of social values and responsibility
- Organizational inflexibility and technical conservatism

The social costs of these penalties are heavy. The growth prospects and globalisation have led to an exponential growth of expectations. The occupational distribution of the work force too has witnessed major changes. Employment is the link between growth and poverty alleviation. Income generated through work is critical to poor households. Improved employment outcomes are essential to promoting economic inclusiveness and ensuring that economic growth leads to reduction in poverty and inequality. At this juncture it will be instructive to view what Gunnar Myrdal (1971:74) wrote “An explanation of this paradox- the contradiction between the emphatic declarations in favour of greater equality and the apparent trend toward greater inequality – must relate to the distribution of power in underdeveloped countries.” He further argued that “the difficulty in demonstrating these trends more accurately is due not merely to the general inadequacy of data in underdeveloped countries, but to a natural tendency by those in control to avoid facing this paradox by not enquiring too deeply into what is happening to inequality”.

Hence the natural question arises as to what extent economic reforms can be said to have led to this emerging characterisation of the employed and the unemployed such as erratic behaviour of rate of unemployment, higher proportion of self employed and higher proportion of marginal workers. Empirical studies show that economic growth and job creation are associated in a positive manner. Such as Khan (2007) found that employment elasticity of GDP growth in developing countries to be around 0.7 and at the global level, Kapsos (2005) also finds that for every 1-percentage point of GDP

growth, total employment grows between 0.3 and 0.38 percentage points during the three periods between 1991 and 2003. These two cases of studies confirms the positive relationship between economic growth and employment growth. It is known that economic growth is necessary for job creation however it is also important to note that growth occurs in those sectors that have the potential to absorb labour, including the rise or sustainable productivity of each workers, at a large scale. It should also be noted that some sectors like manufacturing and other service related activities are more employment-intensive than others. While the average annual rate of growth of gross value added during 1980-81 was about 8.66%, there is agreement amongst scholars that in the organised manufacturing sector registered “jobless growth” during these periods. This resulted to employment elasticity of only 0.06 during these period. The explanations behind the near stagnation of employment in the economy are however varies from one scholar to another (Kannan and Raveendran, 2009).

According to Papola (2012), in the general growth theory, economic growth is postulated to be a function of capital investment and incremental capital-output ratio (ICOR). Labour input and employment do not feature as variables in the neo-classical growth models. Therefore the concern for employment was not prioritizing in augmenting economic growth. He argues that aggregate growth in output is the outcome of increase in employment and that in productivity. It is derived either by employing more people, or improving output per worker or both. Unfortunately, this linkage between employment and growth is often forgotten and the two are treated as independent of each other. Therefore such an approach sends misleading signals to policy makers leading them to consider enhancing growth with concentrating only on productive process and not on increasing employment, indeed creating employment is considered to be a welfare measure at the cost of economic growth.

1.3 North Eastern region of India

India's North Eastern Region (NER) comprises of eight states namely Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim and Tripura and is linked with the mainland through the 27 km wide Siliguri corridor in the northern part of

West Bengal. It is an economically poor but resource rich region. Almost 98 per cent of the boundary of the northeast constitutes international borders with China and Bhutan in the north, Myanmar in the east and Bangladesh in the south and west. These states cover an area of 7.98 percent of the country's total geographical area and account for only around 3.77 percent of the total population and 3.87 percent of country's GDP. The region has remained one of the most backward regions of the country¹. Mainstreaming this region in national development is a challenge as it lags behind the rest of the country in several social, economic and infrastructure indicators. The region is yet to regain its vibrancy at the time of India's independence². NER Vision 2020 shows that assuming that India's gross domestic product will grow 9% per annum, in order to catch up with the income level in the rest of the country by 2020, GDP in the region will have to accelerate from the current 5.3% to 12.9% per annum. The document also dwells at length on the roadmap for achieving those targets that would make development meaningful for the people. Haphazard, jobless and exclusive growth of the present scenario needs to be avoided. How serious is India in pursuing this objective depends on its ability to understand the drivers of growth in the region and their linkages with employment generation.

Despite huge investments over time, north eastern region of India has lagged behind the mainland states in many ways. In the last 60 odd years four new states viz Nagaland, Mizoram, Meghalaya and Arunachal Pradesh emerged out of Assam and the demand for more balkanisation still persists. These states have registered reasonable growth rates however there seems to be a missing link between economic growth and employment generation. There is a widespread belief that unemployment has been a significant driver that accentuated the decades of unrest that has come to characterise this region. NER faces dual issues: first growth has been jobless growth and secondly whatever jobs

¹GOI (1997) Transforming The Northeast Tackling Backlogs in Basic Minimum Services and Infrastructural Needs, Planning Commission, New Delhi

²Singh, E.B.K. (2009) "Understanding Economic growth in the North Eastern region of India" Dialogue, vol.10 no.3 Jan.- March AsthaBharati

that have been generated have been not only been inadequate but highly inappropriate for the local labour force. This is evident from the influx of migrant workers from outside the region. The issue of generation of adequate job opportunities for the growing labour force is as important as the issue of minimising the mismatch between job opportunities and labour supply. The job mismatch is as crucial as unemployment to the crisis of NER.

1.4 Major studies on NER and the gaps :

Several studies have proven that high growth alone is not sufficient condition for poverty alleviation. The pattern and sources of growth as well as the manner in which benefits are distributed matter a lot. Employment generation or job creation are not often being taken as an instrument to reduce poverty in policies. It is argued that for growth to be pro poor it has to be accompanied by employment growth with higher productivity. Developments in employment and labour market have impact on poverty reducing outcome of growth. Policy makers view it as productive employment. According to Byiers et al (2015) other important goals promoted by productive employment are social cohesion, citizen empowerment and personal dignity and greater opportunities for learning and skills accumulation. The coexistence of unemployment problem and poverty can be interpreted as symptoms of lack of structural change. They further argue that the employment nexus between growth and poverty reduction was relatively neglected until the Arab Spring in 2010 and the global financial crisis (Byiers et al 2015). Employment was belatedly included in the Millennium Development Goals in relation to poverty. It has been explicitly considered in the post 2015 Sustainable Development Goals. Employment is a priority in many developing countries. It should be understood is that in reality progress in employment has come as secondary outcome of growth-focused policies rather than from explicit consideration of productive employment generation.

Though several studies have examined the process and determinants of growth across the Indian states, except for Assam, the remaining seven states of the region have not been examined rigorously due to their insignificant size and population. Most of the pre

reform and post reform state level studies are centred around 14 major states. Researchers have ignored this region due to the poor and questionable data base and its insignificant share in national income and population. The states in the region are not homogenous entities and the quality of enabling environments differ widely. Issues whether these states should be treated as homogenous or heterogeneous have remained hypothetical. Yet Assam used to represent the north east in academic dialogues. Most of the states in the region are small states and they face unique challenges in raising their growth potential. Small population, geographical isolation and low population density, poor connectivity, narrow production base, heavy reliance on central funds have made them different. The available studies (Das, Dubey & Pala 2007, Singh 2007, Sahu 2012) are descriptive and have not used rigorous analytical tools to investigate the linkage between development and employment generation. Sahu (2012) used unit record data of NSS for 1993-4, 1999-00 and 2004-5. This exercise of employment elasticity estimation was based on estimates of growth rates. Tripathi (2016) used multinomial logit model using unit level NSS data from the 68th round. The issues that need further probing are nature and quality of employment available, duration of unemployment, level of productivity of these jobs and prospect of their sustainability and linkage between economic growth and generation of gainful employment. The issue of appropriateness of the categories used for employment and unemployment also needs probing.

A significant increase in employment elasticity should match with increase in productivity. But the overall improvement in employment elasticity in agriculture is to be seen in the context of level of per worker productivity because productivity in this sector is relatively low with considerable underemployment. The elasticity of employment in manufacturing, too, witnessed an increase in the post-2000 period, in north-eastern states. In Assam, it declined during the same period. But in construction, trade and transport storage-communications, the levels of employment elasticities declined during 2000/2005 as compared to previous period, i.e. 1994/2000. Similarly two important components of tertiary sector, i.e. finance-insurance-real estate and community-social-personal services have witnessed negative employment elasticities in 2000/2005. Thus in some of the sectors that witnessed a varying degree of increase in employment growth rate during the post-2000 years, the magnitude of employment elasticity too witnessed a

varying degree of increase. In other words, the rising or declining labour content of growth has indeed been a strong driving factor behind accelerating or decelerating pace of employment expansion in individual sectors. (Tripathi, 2016)

Whether improved growth rates of GDP has led to any significant changes in the level and growth of worker productivity is an important issue that needs close examination. The overall labour productivity indicates an increasing trend. The level of overall labour productivity in NER has increased from Rs 19,223 in 1993–94 to Rs. 21,126 in 1999–00 and to Rs. 23,154 in 2004–05 at 2004-05 prices. At sectoral level also per worker productivity has witnessed varying degree of improvement. In agriculture, the level of productivity is not only abysmally low, but also declined during post 2000 period. The NER as a whole, per worker earning differential between agriculture and other sectors are very high. For example, in 2004–05 the per worker productivity in agriculture is substantially lower than that of manufacturing, construction, trade, transport-storage-communication and community-social and personal services respectively (68th NSS rounds, 2011). The very low level of per worker productivity compared with some of the other sectors indicates higher magnitude of underemployment. It, therefore proves that growth of state domestic product in this sector should not be expected to generate a big increase in total employment; instead, it would rather go to reduce the degree of underemployment with an increase both in wage rates for agricultural workers and earnings of cultivators.

1.5 Objectives

- i.** Examining the pattern of economic growth of the states in the North Eastern States of India. This will help in better understanding of whether the states have similar pattern of growth and can be collectively considered as homogenous set of states or not. This will also help understand the difference from the All India average growth rate.
- ii.** Examining the pattern of growth of employment at sectoral and aggregate level and unemployment and a comparison with All India.

- iii. Examining the association between growth and employment in the North Eastern region at the state level helps in drawing state specific policies.
- iv. Examining the nature of labour force in terms of their social and economic background as well as the education and age in the state of Manipur.

1.6 Hypothesis

The major hypothesis tested in this work are as follows:

- The economic growth does not necessarily lead to employment generation.
- The economic growth does not always incorporate equitable income distribution as well as the growth of the productivity of the workers.
- The structural breaks experienced within the NER regions were not similar for different states and sectors therein.
- The probability of a person being employed depends on various factors like social-background, families economic status, education, age and the area of residence.
- The employability of the respondent and the employment status of a person have strong positive relationship.

1.7 Database and Methodology

Both secondary and primary data have been used for the study. The secondary data consists of NSS data on employment and unemployment collected quinquennially since 1993-4. The data relate to 50th round (1993-4), 55th round (1999-2000), 61st round (2004-05) and 68th round (2011-12). Decadal Census data also have been used for population intrapolation. Net state domestic product (NSDP) data provided by Central Statistical Organisation at 2004-05 prices have been used for studying the pattern of growth.

Employment elasticity approach has been used to find out the employment contribution from each sectors in NER and Shapley decomposition technique has also been used to decompose growth in per capita NSDP for each of the eight states in NER, into growth associated with changes in output per worker, growth associated with changes in

employment rates and growth associated with changes in the size of the working age population. The software for decomposition is ‘Job Generation and Growth Decomposition tool’ also known as JOGG is available with Poverty Reduction Group, Poverty Reduction and Economic Management (PREM), World Bank.

Besides studying structural changes in the state economies, Bai & Perron (1998) test is used to identify multiple break points in the time series of real NSDP, real income originating in agriculture, industry and services for eight states under study based on the specification.

In addition to the secondary data, primary data relating have been collected. A random sample of 300 respondents was taken from the frame provided by Employment Exchanges of Imphal West, Imphal East, Bishnupur and Thoubal districts of Manipur in July 2014 with the purpose of analysing the labour market on the basis of the sample³. In the final analysis due to non response and partial response 271 respondents information is used for detailed analysis.

Further, primary data provides a broader view of the issues under study. There are two sets questionnaires – one for the unemployed and the other for employed. The questionnaires throws light on individual characteristics determining the probability of getting employed, social and educational background of unemployment, effectiveness of job search strategy etc. The list of persons registered in employment exchanges have been used as the population to draw the sample.

Along with techniques like Multiple Regression, Principal Component Analysis of the primary data collected from the 271 respondents, researchers examined data using Logit models or Logistic Regression functions. The issues investigated are identification of characteristics affecting probability of being employed, duration of unemployment, effectiveness of job search strategies etc. In addition, simple ratios, correlations, t-test and chi-square test have been used.

³ In December 2016 the number of districts rose from 9 to 16. The number of valley districts became 6.

1.8 Chapter schemes

The study is organised into eight chapter. Summary outline of the chapters are as follows:

Chapter 2 presents the background of economic growth theory and its linkages with the employment. It discusses the reasons for including the employment theory along with economic growth theory to reduce poverty. The experience of India in economic growth and employment generation is highlighted using various researchers' contributions works. Discussion on NER's experience of growth and employment is taken up.

Chapter 3 presents a brief history of NER of India along with its potential in economic areas and natural resources. The problems of development and challenges of NER are examined. The hypothesis that economic growth varies among the states and the structural changes differ across states and reasons, have been tested in this chapter.

Chapter 4 explores the socio economic profile of Manipur. Basic geographical information as well as its cultural facts are presented. Economic growth rates, structural changes and employment growth rates have been analysed. This chapter analyses Manipur's transformation in terms of structural changes, trends in sectoral employment changes and its development challenges.

Chapter 5 presents the decomposition analysis using two approaches viz Elasticity of Employment approach and Shapley's Decomposition approach. These technique are used to identify whether the growth experience of India as well as NER states is jobless growth or sustainable growth. It also identifies the sectors which have low job generation. The analysis has been done for all the states of NER.

Chapter 6 examines socio economic profile of people of Manipur based on primary survey. The registrations in the employment exchanges of various districts of Manipur is the population of the study. Various statistical techniques are used to analyze the relationships amongst various socio economic factors which affect the employment status of the respondent. The aim of this chapter was to highlight the employment scenario of educated and the socio and economic factors impacting on it.

Chapter 7 further analyses the sample data collected by the author. The chapter explores the relationship of employability and the employment status of the respondents. The principal component analysis is used to derive the Employability Index which is a weighted score index. The study investigates whether a person with high employability score is actually employed or not. The problem of mismatch of jobs, along with coping strategies is analysed.

The summary and conclusions of the research are presented in chapter 8. This chapter also puts forward the policy implication and suggestions.