

How to Create Jobs

Bharat Jhunjhunwala

The challenge before the newly elected Chief Ministers of UP, Uttarakhand and Punjab is to create employment despite the anti-people policies of the Centre. The Centre, for example, wants to impose a single rate of tax on all commodities irrespective of whether it is produced by labour- or capital-intensive technologies. Handloom and mill made cloth are proposed to be taxed at a single rate. This provides encouragement to capital-intensive production. This point was very ably made by Mayawati in her speech to the National Development Council as Chief Minister of UP in 2002. She said, "If present trend continues, the capital-intensive industries, as usual, are bound to grow in the manufacturing sector so much so to further reduce the share of labour-intensive industries. So, we should not presume that the growth rate targeted at 9.82 percent will be able to generate adequate employment opportunities so as to siphon-off major portion of surplus workforce from the agriculture sector."

There is a need, therefore, to provide encouragement to labour-intensive production. But the Centre is unwilling to do this. Encouragement is being provided to capital-intensive industries instead. The Special Economic Zones, for example, specify minimum size of investment thus placing labour-intensive industries out of bound. Small industries like handlooms are being killed by prohibiting their installation in residential areas of cities. Unemployment is rising as a result of these policies of the Central Government.

Most states are encouraging the development of specific sectors that are labour-intensive. Mayawati said in her speech to the National Development Council that there was a vast potential for creating employment in the cultivation of cash crops, poultry and dairy. The Textile Policy announced by the Punjab Government speaks of creation of jobs in textile sector despite the adverse effect of mechanization. Mizoram plans to establish showrooms in major cities of the country to promote its handloom industry. Goa wants to generate employment in agriculture, industry and tourism sectors. Haryana is developing a petrochemical park, a food park and a gem and jewelry park. Chhattisgarh is promoting agriculture- and forest-based industries. Most states are trying to generate employment by developing selected sectors. But none, including Mayawati, have an answer to the query posed by her : How will jobs be created if capital-intensive industries are established in these sectors?

The state government can take measures that are more effective. It can adjust rates of VAT to encourage labour-intensive production. The Centre wants to impose the same rate of excise duty on handlooms and mill cloth. But the state government is free to impose lower rates of VAT on handlooms and higher rates on mill cloth. The city of Kalpi in UP was at one time the centre of production of hand made paper. That industry is almost dead now. Tax concessions can be provided to such products.

Labour laws can be reformed to provide relief to small industries. Presently small units employing 20 workers are covered under the Factories Act and 100 other labour laws relating to gratuity, workmen's compensation, national holidays, etc. These laws are a hindrance to the development of small industries. Businessmen spend much time maintaining records required by these laws, lose quality time and are unable to compete with big industries. The laws are designed to strangle businesses that generate employment like beedi and agarbatti. A factory that produces Rs one crore

worth of goods by employing 15 workers and automatic machines is exempt from these laws but one producing the same Rs one crore worth of goods by employing 100 workers is covered under the laws. This provides encouragement to employ fewer workers and more machines. The applicability of labour laws should be made on the basis of capital employed per worker or value added per worker. It can be provided that factories employing capital of more than Rs one lac per worker; or adding value of more than Rs 10,000 per worker alone will be covered under these laws. That will exempt labour-intensive industries like beedi from the labour laws and help generate more employment. The objective of labour laws should be to put the noose around large capital-intensive industries rather than large labour-intensive ones.

State Governments can propose SEZ for small or labour-intensive industries. The present approach is in favour of large industries in the specification of minimum size of investment etc. State governments should not be under the illusion that requiring employment of 25% persons of local domicile by SEZ companies will help generate employment. A few local persons can get jobs under this dispensation while a large number lose their jobs. The net impact of an industry on employment can be negative even though some employment is provided to local people. A bottled soft drink factory, for example, can displace lacs of juice vendors while providing say 20 jobs to persons of local domicile. The impact on employment should account for direct as well as indirect impacts.

The State Government can also provide cheap electricity and better roads to labour-intensive industries. A method of providing cross-subsidy to labour-intensive industries should be worked out. For example two separate electricity tariffs can be fixed for labour-and capital-intensive units. Units employing capital less than Rs one lac per worker or adding less than specified level of value per worker can be provided electricity at a cheaper rate. The burden can be passed on to units employing higher level of capital. This will lead to the capital-intensive units subsidizing the labour-intensive units while keeping the average tariff unchanged. The basic point is that tariff of all inputs under the control of the state government should be fixed on the basis of employment generated. This will then make it profitable for businesses to adopt labour-intensive methods of production and generate more jobs.

The state government gives out many contracts for building of roads, cleaning of village ponds, establishment of forests etc. It can be provided here that labour-intensive methods will be used by the contractors. For example, labour will be used to make roads instead of excavators and tractors. The state government can make a scheme to pay the employer's PF contribution for workers drawing salaries of Rs 3,000 per month or less.

The state government purchase many goods such as file covers, medicines, furniture, black boards and biscuits for mid-day meals. Suppliers can be asked to specify the technology proposed to be used and employment generated in the production of the item. For example file covers made from hand made paper generate more employment. These goods can be provided preference in purchases.

Presently state governments are providing honour to actors and businessmen who advertise harmful products like pan masala and bottled soft drinks. Instead businessmen employing large number of workers should be honoured. □□□