Jobs, Jobs, Jobs

Raghuram Rajan

As with every Indian election, this one is touted as one that will shape the future of India. Political parties seem to be either emphasizing national security or job-creating economic growth. The reality is that these are not two different issues – they are the same.

Let me explain: there is no immediate national security emergency – we have faced terrorism and cross-border interference for decades now. Over the medium term, however, our national security depends primarily on our economic strength. If we do not have strong job-creating economic growth in coming years, we will suffer on multiple fronts. We will not have the resources to upgrade our military’s equipment. We will not have the economic clout that will persuade other nations to arrest our terrorists and extradite those who flee our laws. And we will have rising levels of internal political unrest as our unemployed youth start venting their frustration. One cannot have meaningful national security without strong job-creating economic growth.

On both growth and jobs, it is unquestionable that we need to do better. Given the discrepancy between government claims on these, and those of quasi-government and private bodies, it is better to turn to other evidence. On growth, the slow pace of private investment thus far suggests low capacity utilization and the absence of animal spirits that would otherwise accompany strong growth. On jobs, in a survey of 2.7 lakh voters by the Association for Democratic Reform, the most frequent concern on voter minds was “better employment prospects” (47% of respondents). Even if the government thinks good jobs are plentiful, the electorate seems concerned.

How will we create jobs? Undoubtedly, we have to elevate our pace of growth, especially in job creating sectors. And that requires a new generation of reforms since the old ones are running out of steam. Consider just one sector, construction, to see the range of inter-linked reforms that are needed.

Construction– of affordable housing, roads, railways, ports, airports, and commercial real estate-- is the primary source of jobs for the moderately skilled in many emerging markets. Yet our construction sector is held back, in part by a cumbersome process of land acquisition, and in part by limited access to credit. The next government will have to learn from best practices in states how to acquire land in a transparent, fair, and speedy way, and convert that learning into legislation. That will help reduce the risk in financing large infrastructure projects, to which delays in land acquisition contribute significantly.

Better digital mapping and titling of land, a state subject, will help ease land acquisition. We have discussed land mapping and titling for many years, and a few states have done it, but many have not. This needs to be expedited. It will not just facilitate land sales; a collateral benefit will be to ease land leasing. Many marginal farmers can leave agriculture, getting good rents by leasing to farms of now-viable size.

Land use is also constrained by a plethora of permissions, including zoning and environmental permissions. There is no question that the unsightly and damaging development that mars so much of India needs to be stopped or even reversed. For instance, we cement over water catchment areas so that when it rains heavily we get floods, but too little water is absorbed to replenish ground water reserves. Unfortunately, our current system of permissions often results in delay and corruption without leading to better development. One focus of the next government must be to streamline government
itself, so that it is fit for the purpose intended. Instead of focusing on World Bank indicators of “Doing Business”, which are primarily based on a few selected indicators in Delhi and Mumbai, we must lighten the actual compliance load for business, while ensuring development is sustainable.

The private sector also needs reform. Banks have shied away from lending to firms in the construction sector because of their murky practices. Finance companies have filled the gap, but they have gotten into trouble. Construction companies have to come clean. A transparent land acquisition process, as well as more regulations improving practices, like the Real Estate (Regulation and Development) Act, will help. A cleaned-up construction sector will attract formal financing, which could drive out the dirty money that it has historically relied on.

Common themes show up in other sectors. The broader point is that there are plenty of reforms the next government could do to jump start job creation. And a good job, after all, is the best form of inclusion. There is much to be done.

A new government must also learn from the past. Any genuine reform program will be too vast, and requires too much from the states, to be run entirely from the Prime Minister’s Office. A collegial empowered cabinet will be more likely to push a broad range of reforms and will avoid the policy mistakes that arise when too few are involved in decision making. States will also have to become partners in reform through genuine co-operative federalism.

We also need to respect resource constraints. The portfolio of government schemes has to be rationalized so that the budget is fiscally sound, even while it targets genuine needs more efficiently.

Lastly, any sustainable growth path will require social calm – any party that explicitly demonizes a large group of citizens ensures we will neither have growth nor national security. There is only one objective as we go towards elections – sustainable, job-creating, economic growth.