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India's Employment Exchanges – Should they be revamped or scrapped altogether?

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“There have been no attempts, so far, on collecting statistical material on employment and unemployment; the only published figures at present available are the registrations and placements of employment exchanges. These figures cannot, however, give an idea of the total volume of unemployment. Firstly, employment exchanges are confined to industrial towns and the figures of registrations and placements which they compile are restricted mostly to the industrial and commercial sector. Secondly, even in the industrial sector, there is neither compulsion for the unemployed, to register with the exchanges, nor is there any obligation on the part of the employer to recruit labour only through these exchanges. Even the information regarding unemployment among the industrial workers is, thus, inadequate. Thirdly, in the nature of the case, employment exchange statistics cannot indicate the amount of disguised unemployment which is otherwise believed to exist. This means that the extent to which qualified persons have to accept work which does not give them the income which persons with similar qualifications get elsewhere cannot be assessed from these data. There is also to some extent registration of persons who are already in employment and who desire to seek better jobs. This tendency is reported to exist in the more qualified section of registrants, but to the extent a region maintains these persons on the register of employment seekers, there is an overestimate of the number unemployed.” This was not written yesterday. It is a quote from India's First Five Year Plan (1951-56) document.¹ Nothing would substantially change if this were to be written now.

In September 2007, the National Commission for Enterprises in the Unorganized Sector submitted a report.² It estimated that, in 2004-05, out of a workforce of 457 million, 92 percent was in the unorganised sector, a workforce of around 394 million. However, since there are informal workers also in the organised sector, the total number of informal/unorganised workers was 423 million, and 256 million of them were in agriculture. Of the remaining 167 million workers who were unorganised, 100 million were self-employed. But this still leaves a relatively large figure of 67 million workers in non-agricultural wage employment. Till the National Sample Survey (NSS) large-sample data for 2004-05 became available, there were question marks about whether Indian reforms had led

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¹ Chapter 39, *Employment*.

² *Report on Conditions of Work and Promotion of Livelihoods in the Unorganized Sector*, September 2007.

to an increase in employment. In December 2006, after the NSS 2004-05 became available, the Approach Paper to the 11th Five Year Plan (2007-12) stated that, “Growth without jobs can neither be inclusive nor can it bridge divides... Employment is an area which shows up where our growth process is failing on inclusiveness. The number of workers is growing, particularly in non-agricultural employment, but weaknesses appear in unemployment, the quality of employment, and in large and increasing differentials in productivity and wages.”³ Pointing to the quality of employment (informal, low productivity, low wages and lack of protection) is one thing (as the National Commission for Enterprises in the Unorganized Sector did). Saying that there is an overall non-agricultural employment problem is another.

The industry perception is unambiguous. Workers are not available. This is often a comment on lack of requisite skills, but is also increasingly a comment on non-availability, regardless of skills. The broader point about the lack of skills and low educational attainments is well taken and is often talked about in reports emanating from within India and from without. For instance, it figures in a list of 10 things a recent Goldman Sachs report wants India to focus on.⁴ What is, however, often missed is a regional-cum-spatial mismatch. Purely in passing, the Goldman Sachs report states that, “As with other aspects of Indian life, there are considerable differences in organisational structures for education in different states, so broad generalisations are difficult.” The Approach Paper dismisses this mismatch issue in half a sentence and the Economic Survey 2007-08 does not even mention it. There are geographical areas and segments where there is excess demand and ones where there is excess supply. The demographic dividend accrues in parts of the country. But that is not necessarily where jobs are being created. Earlier, public sector (and even private sector) establishments could be set up in locations where there was labour. But with de-licensing, this is no longer a possible option.

Unorganised sector male wage employment is primarily in manufacturing, construction, trading and transport. For women, trading and transport can be replaced by domestic services. Depending on how we count, the total is around 70 million. These figures are from 2004-05. They must have increased since then and it is a considerable number. Hence, one should ask the question: How do these workers find out jobs are available and decide on temporary or permanent migration? The answer is simple. Barring limited instances of job offers at factory gates, there are only two channels: informal (family, caste, community) networks and labour contractors. This kind of information dissemination cannot be efficient, apart from commissions paid to agents.

Clearly, one needs efficient clearing houses that match supply and demand. Is that not what employment exchanges were supposed to do? Not quite. First, the system started (in 1945) because of the need to resettle demobilised defence service personnel and later (1948) displaced persons from Pakistan. Second, the mandatory Employment Exchanges (Compulsory Notification of Vacancies) Act of 1959, applicable to public sector and private sector units (excluding agriculture) that employ more than 25 people, is not as compulsory as one may think. For the private sector, the mandatory requirement only applies below a threshold level of wages and these have not been revised for years. Whatever the law may say *de jure*, there is nothing mandatory about employment exchanges *de facto*. For the public sector, a Supreme Court judgement in 1996 said that appointments no longer had to be from the pool that was registered with employment exchanges, as long as job vacancies were

³ *Towards Faster and More Inclusive Growth, An Approach to the 11th Five Year Plan*, December 2006.

⁴ *Ten Things for India to Achieve its 2050 Potential, Global Economics Paper No. 169*, Goldman Sachs, June 2008.

suitably publicised. The public sector also set up channels like Staff Selection Commissions, Banking Service Commissions and Railway Recruitment Boards. The Directorate General of Employment and Training's (DGET) website states that, "Therefore Employment Exchanges are left with only stray cases that too at the lower levels of employment. Therefore in the placement side (regular wage employment) the role of Employment Exchanges is definitely going to be not very significant."⁵ One cannot be more honest than that. The aforementioned National Commission's report stated that, "A few workers said they had registered at the Employment Exchange where they received unemployment allowance of Rs50 per day. But they stopped going to the Exchange since it costs them Rs80 each day to reach there." The apparent attraction of employment exchanges is that they are free. Private placement agencies charge, and the DGET also tells us that these private ones may be fraudulent, besides being city-centric.

What do the 947 employment exchanges (82 are physically located in universities) do? There will be a song and dance about the training services they provide. But training is a separate issue. On matching supply and demand and providing employment, as of 31 December 2007, 39.97 million people were registered with employment exchanges to seek jobs. As far as employment exchange performance is concerned, in 2007, 263,540 people got jobs through employment exchanges and 7.3 million registered themselves with employment exchanges in 2006. To reinforce the spatial point made earlier, most placements were in Gujarat (178,346), Tamil Nadu (23,757), Kerala (10,962), Maharashtra (8,207), West Bengal (5,304) and Rajasthan (4,544).⁶ If one leaves out Gujarat, the numbers are insignificant. Most new registrations are in Uttar Pradesh (with most of the backlog in West Bengal). Administration and expenditure on employment exchanges are now state subjects, an earlier matching grant from the Centre having run its course. In 1952, a committee known as the Training and Employment Services Organization Committee (popularly known as the Shiva Rao Committee) was set up and it recommended that the administration of employment exchanges should be handed over to state governments. Till 1969, funding came through central sources. However, once this system was scrapped, though the service *per se* continues to be a joint responsibility, expenditure comes out of state government budgets. Hence, it is difficult to get data on expenditure on employment exchanges, or on what it costs the budget to get people those 263,540 jobs. A back-of-the-envelope computation with the Delhi government's budget suggests that it costs the government (and, therefore, citizens) Rs228,381 for a single placement.⁷ An employment exchange exists in Chitradurga in Karnataka, staffed with bureaucracy. But this has not provided a single job in the last four years and Chitradurga is not an exception. This is not efficient usage of scarce public funds and equally scarce infrastructure in those 947 exchanges.

The Mid-Term Appraisal of the Tenth Five Year Plan (2002-07) was fairly forthright about what should be done with the employment exchanges.⁸ "At present, the employment exchanges function as offices of the state governments, as is prescribed under the Employment Exchanges (Compulsory Notification of Vacancies) Act, 1959. These exchanges also collect data on the number of workers employed in the establishments in their respective areas, which is used by the government for statistics relating to employment in the organised sector. The coverage of the establishments is very poor and the data fails to capture

⁵ <http://dget.gov.in/>

⁶ *Rajya Sabha Parliamentary Question*, 18 March 2008.

⁷ *State of Governance: Delhi Citizen Handbook*, Centre for Civil Society, 2006.

⁸ *Mid-Term Appraisal of the Tenth Five Year Plan*, Chapter 8, <http://planningcommission.nic.in/midterm/english-pdf/chapter-08.pdf>

the changes in employment. A role for employment exchanges can be considered for providing employment-related information services for new initiatives like the National Food for Work Programme and the proposed employee guarantee scheme, in both of which work on projects in rural areas is to be assured at the level of the household. However, their functions will have to be restructured and they will have to be relocated to the rural areas. Currently, they are located at the District Headquarters in most parts of the country. So far, very few states have set up web-based information systems on employment services. E-governance initiatives should be used for generating and maintaining information for providing employment services for the rural areas. The delivery of employment-related information services by private employment exchanges should be encouraged in the urban areas. The Employment Exchanges Act should be amended to allow private employment exchanges to provide job placement services to both private sector and public sector/government establishments and to collect the data on the creation of employment opportunities at the level of the establishments.” This city-centric focus of the present employment exchanges is something the Communist Party of India (Marxist) also accepts. M. K. Pandhe, the President of Centre of Indian Trade Unions wrote, “However, they collect data only for the organised sector while the vast area of unorganised sector is out of the purview of these exchanges. Moreover, these employment exchanges are only operating in the urban areas and have no centres in the rural areas.”⁹

The Ministry of Labour estimates that there are around 800 private placement agencies that are large and are not fraudulent. If one sets up a regulatory structure, fraudulent ones will be eliminated and informal networks (family, caste, community, contractors) will become large and formalised, ensuring economies of scale and scope in information processing, dissemination and intermediation. Some states have experimented with reforming employment exchanges. In 2002, an Administrative Reforms Commission (the Harnahalli Ramaswamy Commission) recommended that employment exchanges should be downsized. States like Gujarat¹⁰ and Rajasthan¹¹ have experimented with allowing private placement agencies to get into the matching function. Even a state like West Bengal has permitted private training organisations to offer training at employment exchanges. However, no state has yet taken the logical step of winding down public employment exchanges and handing the assets over to private placement agencies for management. Since this has been contemplated for industrial training institutes, there is no reason why it should not be done for employment exchanges as well.

Instead, the wheel has turned in the opposite direction. For example, in the specific case of the labour market, the reform-driven thrust of the Mid-Term Appraisal of the Tenth Plan is conspicuously missing in the Approach Paper to the Eleventh Plan. This is in consonance with the mindset of the United Progressive Alliance (UPA) government. The argument is that public employment exchanges need to be revamped and computerised, not scrapped. “The DGET, responsible for “National Employment Service” and “National Vocational Training” in the country, has taken initiatives to achieve wide spread applications of IT in all possible areas of employment service and vocational training.”¹² As Indian budgets go, this

⁹ “The National Employment Service – A Hoax,” *People’s Democracy*, 6 June 2004.

¹⁰ These are called *Rozgar Sahay Kendras* in Gujarat, labeled as public-private partnerships. The public employment exchange provides a database of people on the register (the supply of labour, so to speak) and the private agency matches it with demand.

¹¹ Job “*melas*” have been organised in Rajasthan.

¹² *Annual Report of the Ministry of Labour, 2007-08*, Chapter 30, <http://www.labour.nic.in/annrep/annrep0708/english/Ch-11.pdf>

computerisation plan does not involve a great deal of money, between Rs6 to Rs7 billion and is expected to be completed by 2010. One-third of the 947 employment exchanges are apparently already computerised. However, such plans and talk of ISO certification should be considered against the backdrop of inefficient public expenditure and opportunity costs of those resources. An audit report for 2004-05 for West Bengal stated that, “The Directorate of Employment, West Bengal, through its network of Employment Exchanges, caters to activities like registration of job seekers, renewal of registration and submission of list of eligible candidates to employers. Computerisation of 40 employment exchanges in the state was taken up along with network connectivity and the work was entrusted to the ET & TDC on a turn-key basis. However, even after spending Rs6.52 crore, the computerised system installed in the employment exchanges have been lying inoperative for last 30 to 46 months, owing to a default timer-based lock implanted by the vendor, the non-completion of the creation of the database and the non-installation of the software due to the abandonment of work by the vendor, largely frustrating the basic objective of the scheme. The application software also lacked in data processing and data manipulation controls. Absence of data disaster recovery strategy led to substantial data loss.”¹³

This is symptomatic of much that the UPA government has sought to do. With the UPA tenure coming to an end, perhaps one will get back to reforms. Since revamping is pointless, public employment exchanges should be scrapped. While this is fundamentally a state government subject, the centre does have a catalytic and triggering role to play.

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¹³ www.intosaiitaudit.org/hosted_external_publications/India_3WEST_BENGAL.pdf.