Job Crunch and Growing Nativism

What is the issue?

- The Haryana government has recently passed a legislation that mandates companies in Haryana to provide jobs to local Haryanvis first.
- Similar legislations by other states reflect a rising trend of subnationalism in the States of India which call for course corrections.

What was the need for Haryana's legislation?

- The jobs situation in Haryana is staggeringly dismal.
- The unemployment rate there is the highest of all States in India.
- A whopping 80% of women in Haryana who want to work cannot find a job.
- More than half of all graduates in Haryana are jobless.
- Politically, 11 out of the 18 million voters of Haryana do not have a regular job.
- When such a vast majority of adults are jobless, it inevitably leads to social revolutions and political upheavals.
- Given this, Haryana government chose to reserve the few available jobs for its own voters.

What is the concern with this?

- Many States in India have embarked on this nativism adventure.
- Jharkhand too approved a similar legislation to reserve jobs for Jharkhand residents.
- The Dravida Munnetra Kazhagam (DMK) in Tamil Nadu recently announced a similar proposal in its manifesto for the upcoming Assembly elections.
- The objective is to protect the interests of the vast number of their jobless locals.
- However, such policies have attracted criticisms as it is against the liberal idea of a free economy.
- Focusing on creating more jobs, and not on reserving the few available ones, is said to be a better approach.
- But, it is to be understood that creation of new jobs is not entirely in the control of State governments.
- It is a complex interplay of multitude of factors.

How do states create jobs?

- Job creation is obviously an outcome of the performance of the larger economy.
- The Chief Minister of a State in India has limited control over the management of the larger economy.
- A State, thereby, aims at attracting new investors and businesses that can create jobs.
- In that case, a firm, for its expansion, would look for -
    i. abundant high quality skilled and unskilled labour
    ii. land at affordable prices
    iii. uninterrupted supply of electricity, water
    iv. other such 'ease of business' facilities
- State governments in India can theoretically compete with each other on these parameters to attract a firm to set up operations in their State.
- Further, any tax advantages that a particular State can provide vis-à-vis others will increase its attractiveness.

What are the challenges to job creation?

- Realistically in India, a poorer State can compete only in very few of the above parameters against a richer State.
- An elected State government can certainly, during its five-year tenure, attempt to provide high quality local infrastructure.
- State governments may also have the ability to provide land at affordable prices or for free.
- However, the availability of skilled local labour is a function of many decades of social progress of the State.
- It cannot be retooled immediately.
- After the introduction of the GST, State governments have particularly lost their fiscal autonomy.
- They have no powers to provide any tax concessions to businesses.
- In simple terms, states have less or no control over immediate availability of skilled manpower or to use taxes as a tool to attract firms.
- **Agglomeration effect** - Beyond all the above factors, the most critical factor in the choice of a location for a large business is what economists term as the 'agglomeration effect.'
- It refers to the ecosystem of supply chain, talent, good living conditions and so on.
- A State with an already well-established network of suppliers, people, schools, etc are at a greater advantage.
- E.g. if Amazon's competitor Walmart is already established in Karnataka,

then there is a greater incentive for Amazon to also locate itself in Karnataka to take advantage of the established ecosystem
- This leads to a cycle of the more prosperous States growing even faster at the expense of the lagging States.

What is the '3-3-3' danger in this regard?

- The '3-3-3' phenomenon is already evident in India's increasing economic divergence among its States.
- The '3-3-3' effect points to the below:
- The three richest large States (Maharashtra, Tamil Nadu and Karnataka) are three times richer than the three poorest large States (Bihar, Uttar Pradesh and Madhya Pradesh), in per-capita income.
- This is an increase from the 1.4 times in 1970.
- This gap between the richer and poorer States in India is only widening rapidly and not narrowing.
- The increasing gap is due to the agglomeration impact of modern economic development paradigms.

What is the implication?

- In effect, there is the absence of a level playing field among states and lack of fiscal autonomy.
- Given this, it is difficult for the developing states to attract new investments and create new jobs.
- There is clearly a widening inter-State inequality with a 'rich States get richer' economic development model.
- Also, there is an impending demographic disaster and shrinking fiscal autonomy for elected State governments.
- A combination of these factors would inevitably propagate **nativistic sub-nationalism** among the States of India.
- So, an elected government would naturally resort to appeasement policies to deal with the worrying employment situation.
- It is in this line that the States go for policies on reservation for the locals.
- The need of the hour is a level playing economic field for the various States and much greater fiscal freedom.
- This is crucial to create new jobs and not just protect the available ones.

Source: The Hindu

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