

India's Employment Challenge & A Way Forward

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Structure of presentation: Employment – Facts & Figures

The Way Forward – Components of a Manufacturing Strategy

1. Employment: Facts & Figures

- **Official narrative pre- and post-2019**
- **The reality – as emerges from govt's own data**
- **How many non-farm jobs does India need to create?**
- **Why last decade a 'lost decade' in a rapidly aging WF?**
- **The real wages story – the real story**

2. Components of an Industrial Policy – 100 countries adopted IP after 2008 – Offset emerging risks of a Middle Income Trap – an inclusive growth strategy for 8% growth pa for 2 decades

The official view of joblessness

1. Trash CMIE data – although CMIE has issues; larger sample size than NSO, covers org + unorg , R & U; uses ILO compliant definitions
2. One ‘official’ view: PLFS not comparable to EUS 2011-12 & earlier rounds (don’t compare); NSO’s Ann Rep compares PLFS 17-18 to EUS
3. 2019-20 on PLFS UR falling, LFPR & WPR rising – BUT that ignores:
 - Rising ‘UFL’; rising informality; falling regular employment; Agr emp grows
 - Eliminate UFL, as CMIE does, WPR, LFPR FALLS, not rising;
 - UR rising; 10 mn added to 2019 stock of unemployed of 30 mn; 28 mn in 22-23, youth UR still double of 2012; NEET still double

Contd...The Official view

4. “GDP could not have returned to pre-Covid 2020 levels without empl having recovered:

- GDP can recover due to org sector, without unorg recovery, MSMEs (ASUSE)
- Not a V-shaped but K-shaped recovery

5. EPFO new regn rising, so formal jobs rising”

- BUT, formality **may** rise, but not jobs; also, even formality may not have risen coz EPFO constantly revising down/up;

• 6. “Unempl existed before. Why did govt not solve it?” Fair enough, but...

FINALLY, a myth:

India does not have unemployment, but actually “too many stuck in low-productivity informal jobs, not what they aspire to”

- This WAS certainly situation till 2012 (EUS), and earlier;. ONLY PARTLY, frictional UR !This is still true, massively so!
- WORSE, UR has CHANGED: v sharply in last 10 yrs, UR tripled, for entire population, esp YOUNG

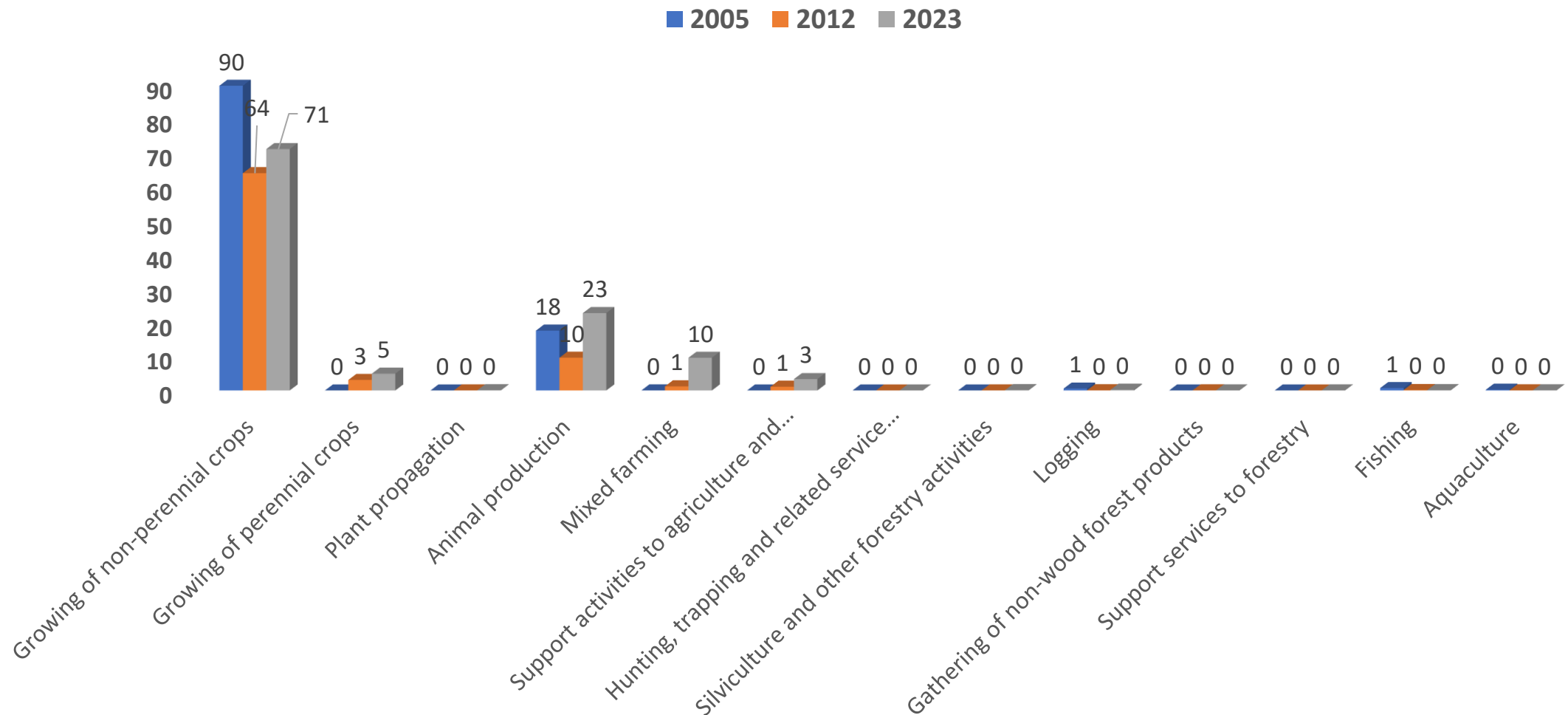
Recent INDIA- KLEMS report claim: empl grew 8cr, 20-21 to 22-23 (3 yrs of Covid!); SBI spreads – Questions?

1. How empl grew in India when ILO: E Asia, SE Asia empl stagnant ;
- 2: PLFS shows increase from 54 to 57 cr – but 8 cr?
- 3: RBI collect no data, funds res (uses PLFS – we use);

KLEMS ignores PLFS shows Empl structure changes: positive structural change underway since 2003! Now REVERSED in Wrong Direction after 2013, Lewisian transition being reversed

- CLAIM 2 successes: 1. 8 cr new jobs in 4 yrs created (PM, based on KLEMS!); 2. female LFPR rises but mainly in agr, already beset with surplus
- **Increase in agri WF is rise in EMPL**; R women in agri rises, R women in SE rises, Subs workers for R women rises; Worst forms, & a reversal of women leaving agri since 2004 – but govt sees it as positive!
- UFL was in R&U falling 2004-2012. **UFL rose 1999-00 to 2004 77mn to 100 mn(ATAL)**;
 - falls to 55 mn in 2018-19; as N-F job growth rose, agri shedding WF/women
 - **BUT opposite happens post 2019: RISES to 95 mn in R by 22-23;**
- Official view: rise in fem LFPR in R due to Livestock - BUT its share ?? Girls sec enr universalized, no desire to be in livestock! The TRUTH next....

Women in Rural Agriculture and Allied Sectors



Mixed Farming: This class includes the combined production of crops and animals without a specialized production of crops or animals. The size of the overall farming operation is not a determining factor. If either production of crops or animals in a given unit exceeds 66 per cent or more of standard gross margins, the combined activity should not be included here, but allocated to crop or animal farming.

Official view: 5 yrs (99-04) NDA has better jobs record than UPA; 2014- better record than UPA – narrative

- Pd 1: 60 mn increase: 1999-00 to 04-05 - neg: 22mn in agri; 38 mn increase is N-Farm +ive dev
 - **7.5 mn pa = to UPA non farm 7.5 mn pa (for 12 yrs) – India did it before!**
- CLAIM: UPA jobs ‘slow’? No recognition of Educ enrolment record - far superior of UPA:
- PD 2: 2004-12 NF jobs created, with **FARM jobs falling for 1st time in India’s history, (STR Ch) lab mkt tightens, wages rise, poverty fall (in cons exp)**
- Unemployment total after 2014: ? WAS 10 mn 2012
 - Rose to 30 mn 2017-18 – policy shocks;
 - UR 2% to 6.1%; youth UR 6% to 18% (PLFS), while NEETs rising >100mn; rising discouraged workers; 83% of unemployed are YOUTH
- Claim abt job creation 2014-24?: abt UR: “Youth UR after 29 yrs is 1%, no UR, “Frictional – YOUTH UFL

Recent Narrative of govt: Massive unorg fall due to Covid, then recovery;
 IGNORES ASUSE 2022-23 VS 2015: 3 findings: a. 5 mn potential units lost;
 b. 2 mn jobs lost actual, potential 8 mn lost; c. hired Worker estds down –
 WHY? Demon, GST, NatlLockdown

Particulars	NSS 67th 2010-11	NSS 73rd 2015-16	ASUSE 2021- 22	ASUSE 2022-23
No. of establishments (million) SLOWDOWN	57.7	63.4	59.7	65.4
No. of workers (min) FALLING	108	111.3	97.9	109.6
% of hired workers establishments (%) FALLING	15.4	15.8	14	15

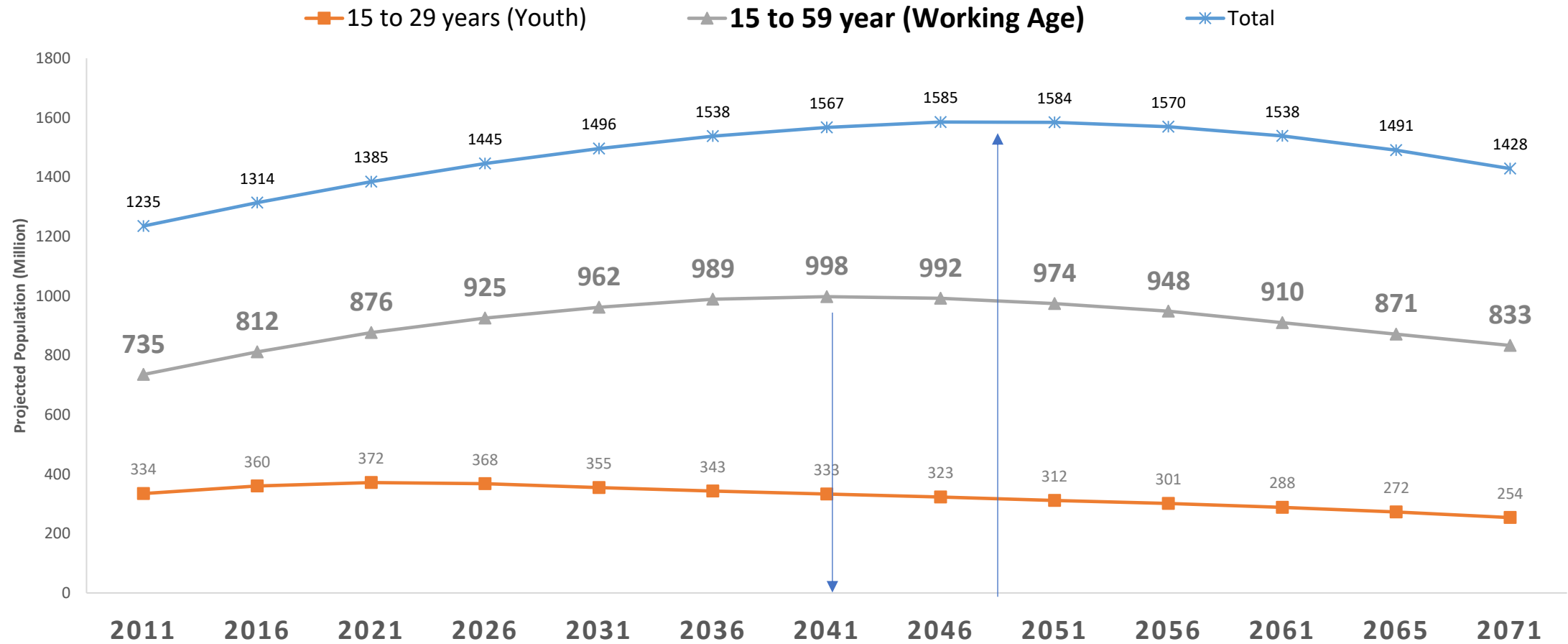
Why jobs slowdown? Econ slowdown post 2016 to 21-22: Policy-induced shocks 7.8% vs 5.8% over last 20 yrs. Deep enough to be structural; growth drivers impacted

- Pvt Cons (1st Growth Driver) maintained by cuts h/hold savings => 24% to 17%;
 - risen slightly, but at cost of retail debts rising. PFCE of upper/middle classes; Non-farm jobs growing, but slower, much slower than needed! **Unorg sector barely recovers = K shaped**
- GFCF 2nd driver 26-31%/GDP 2014-24(pre 2004) – 2004-14 i31-38%/GDP; pub inv cant compensate for pvt inv, as cap utn remains <75% most sectors; MSMEs inv?
- Exports: 3rd driver: goods X grew at 15% pa, X/GDP from 10% to 25% /GDP 1991-2008;\$318 bn in 13-14;
 - lower for 4 years than in 2013-14; Services X can offset this fall, but limits (with de-globaliz'n)
- 4th Driver: Raise Govt inv or rev exp: where is the fiscal space? Debt/GDP hi

Recovery Narrative: fastest growing large economy:Fast growing 'New India': 15% but "central to growth" (HSBC, Morgan Stanley, S& P) Govt + darbari Media Narrative spreads - partial truth!

- 2 hi-tech **goods/services**: mobile handsets, pharma, auto, & IT services – India gaining global market share since 2017
 - **IT services of 2 types**: 1st.India no longer a giant call centre (1990s); nor software services provider (2000s). sells accounting, legal, R&D serv; India "hub of GCC" (serv delivery for MNCs) –
 - 2nd Hi-Tech tech start-ups have plugged into digital public infra (India Stack), : spreading fin-tech, e-commerce, ed-tech, logistics. Foreign capital promoted start ups.
 - YET, GDP expands only by 6.5% pa only over next decade, higher than 6% pre-Covid: doubles GDP in 11 yrs (\$ 7.5trn); NO intl agency projecting higher growth
 - BUT ADMIT 'not enough to create the 70 mn jobs (UNDERESTIMATE) needed over next decade.' Wud generate only 1/3rd of jobs needed! "Old India" – 85% of economy.
- So hope that New India economy would 'energise Old India' = Digital infra can help clusters of small manfg firms enjoy advs of large manfrs. – cheaper credit, larger end mkts, new credit platforms BUT **70% of 66mn MSMEs UNREGISTERED!**

Demographic Dividend : Projected Working Age Population, 2011-2071 (millions); Dividend ending 2040

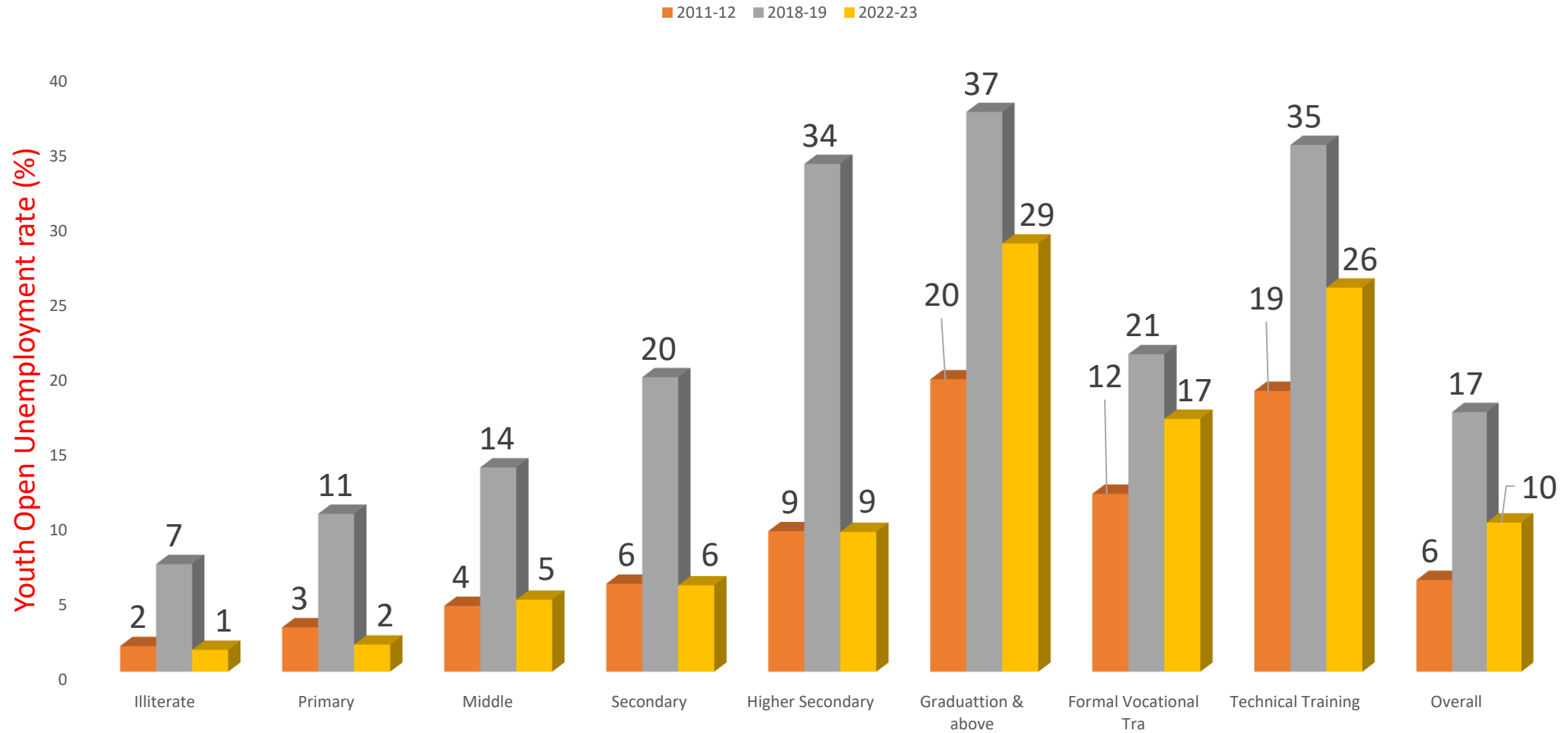


Demographic Dividend but now 4 demographic groups: each a looming jobs crisis

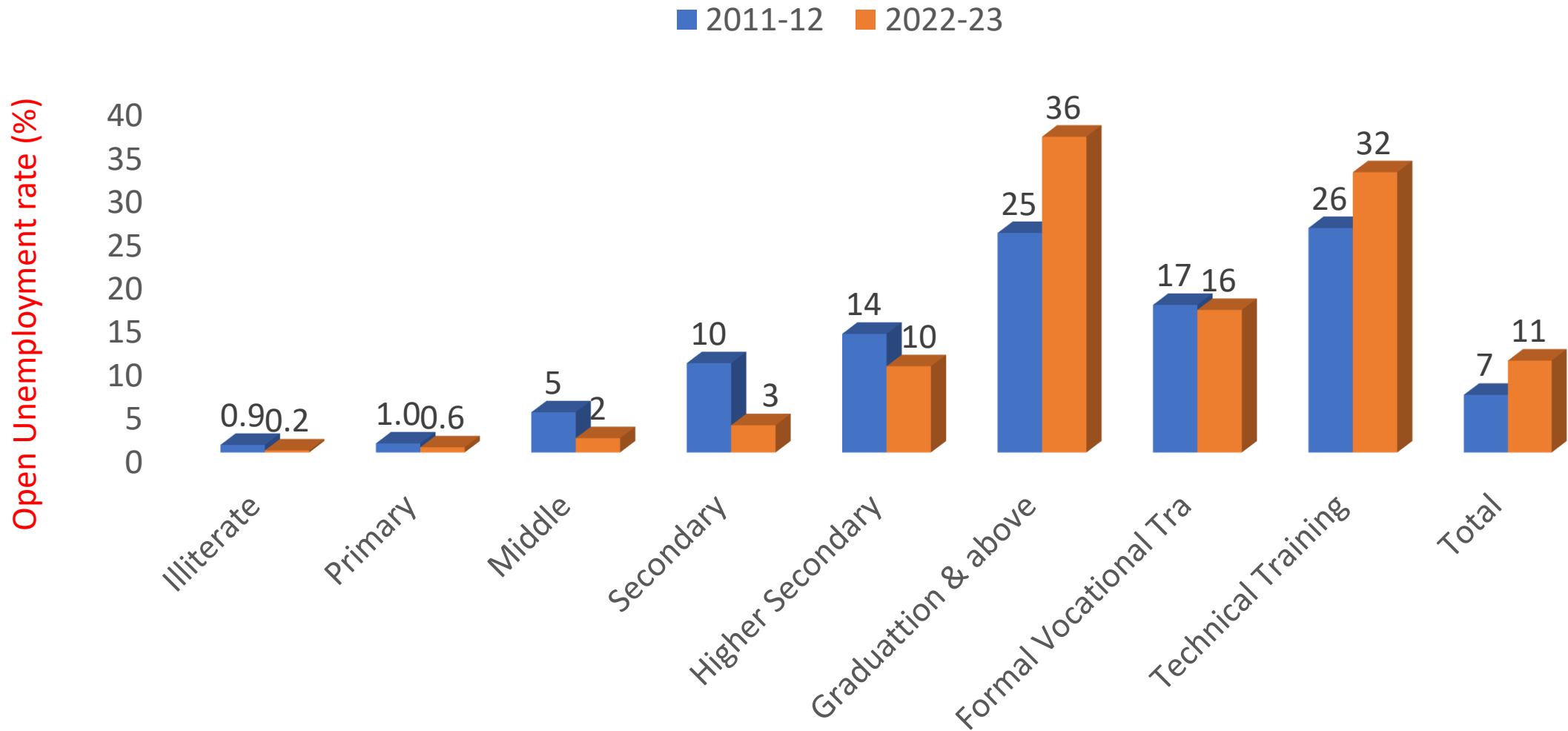
- 1. FLOW: Youth 15-29 yr olds**: 6 mn entering LF. (Enr rising at every level 1.5 mn engineers graduate; 8.5mn graduate (BCOm, BSc, BBA, etc) = 10 mn /YR!
- Girls LFPR dropping while ENR rising - 25% don't want to marry until 18-20 age, 51% 21-25 age; India's overall LFPR
- 2. STOCK: Farm landless/Small-marginal farmers**: WF of 200 mn in 2019 now 260 mn 22-23 (of 570 mn WF – reducing to 200 mn would take Agr share 30%
- 3. STOCK Unemployed** : 10 mn in 2012, 30 mn in 2019; CWS 5.1%. In 2022-3 of 570 mn WF: 28 mn unemployed (man youth nominally employed, UFL)
- 4. STOCK YOUTH NEETS**: 100 mn need to be employed – rise from 51mn in 2012

A VIEW: No MORE 7mn new jobs needed at 60% LFPR: “to preserve status quo on unemp; an increase above 7 mn will reduce UR”? Why? As TFR dropped, so fewer WF. REALLY? **We estimate >10-11 mn per year, non farm jobs needed**

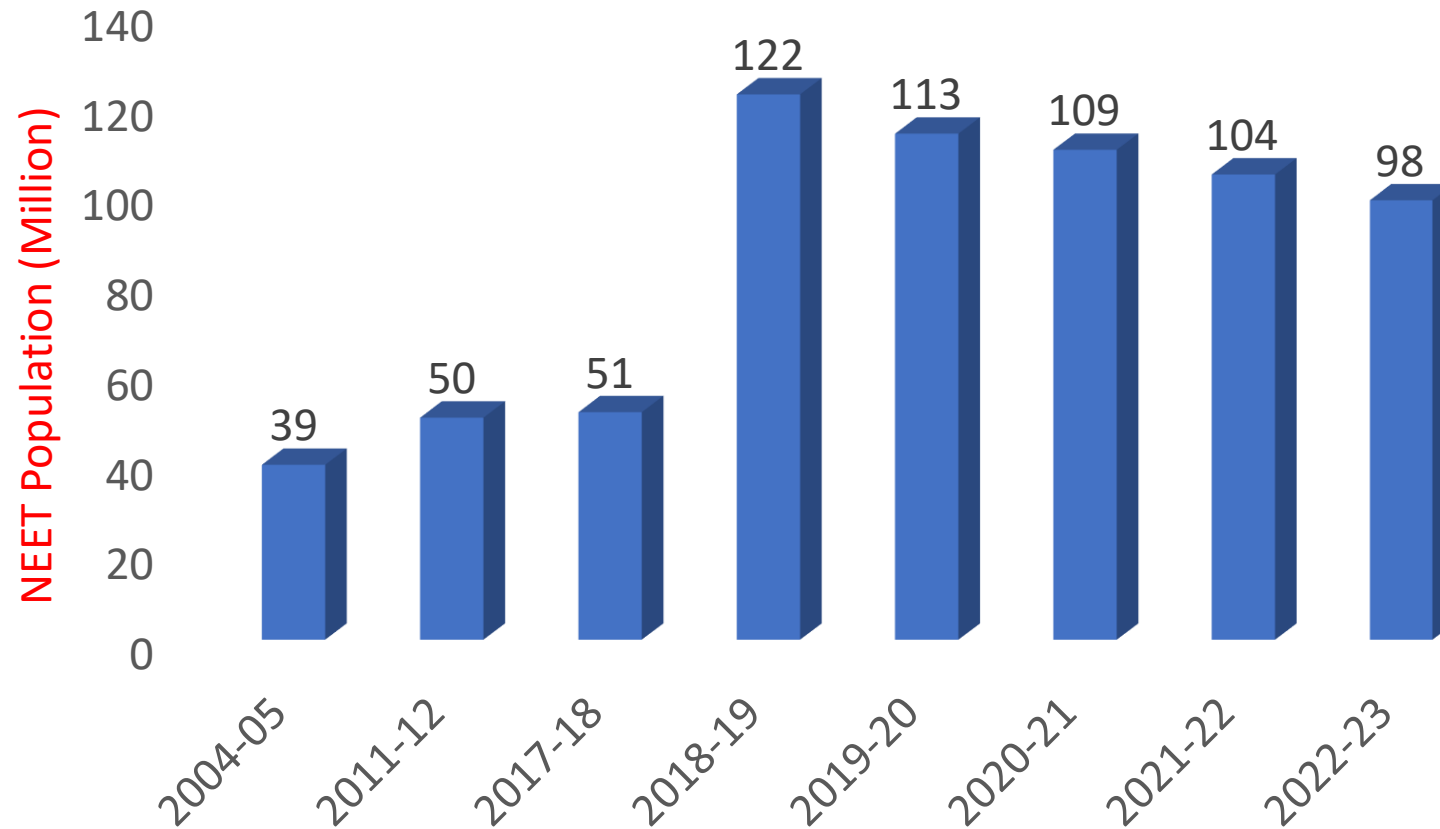
An upsurge in youth (male & female) open unemployment



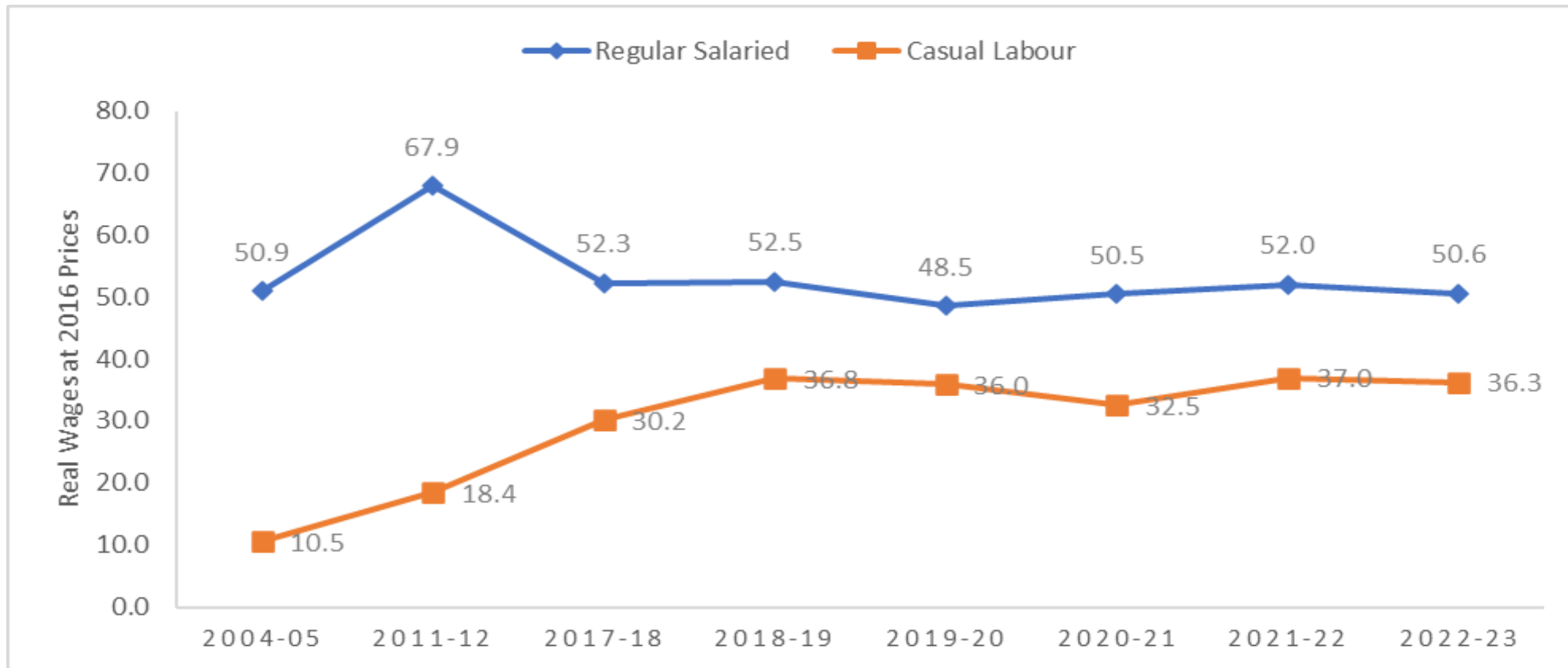
The Case of Young Women with Education is worse....



Youth 15-29: NEET Population increased massively

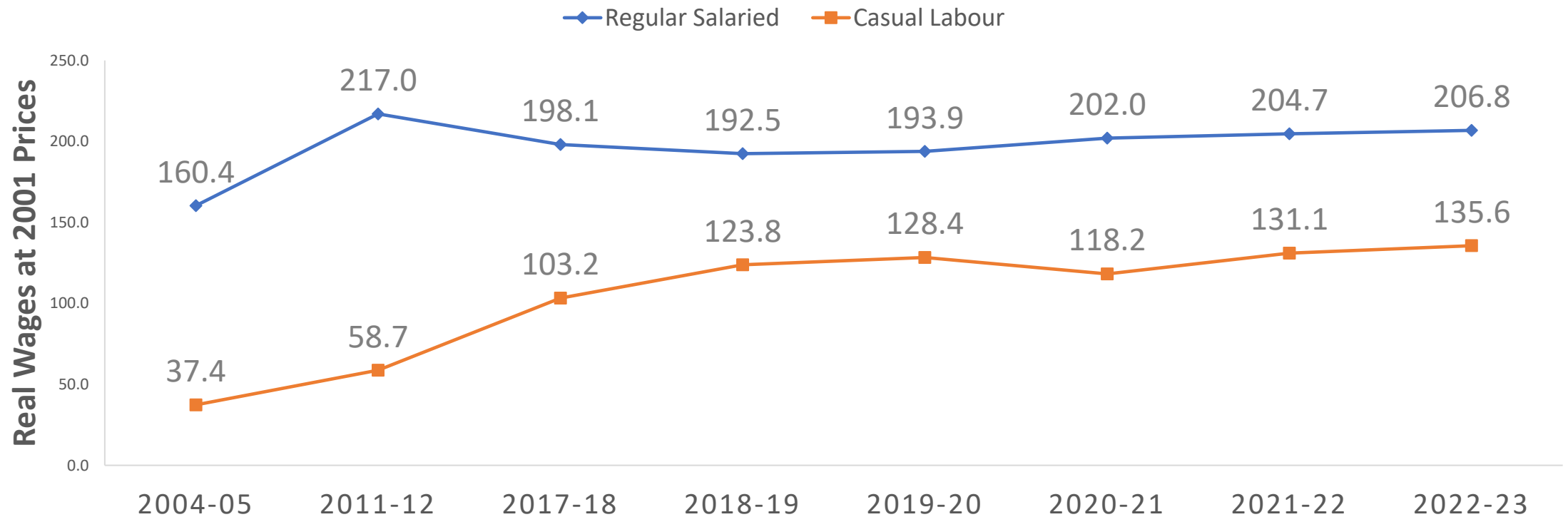


Real Wages Rural India 2004-5 to 2022-23



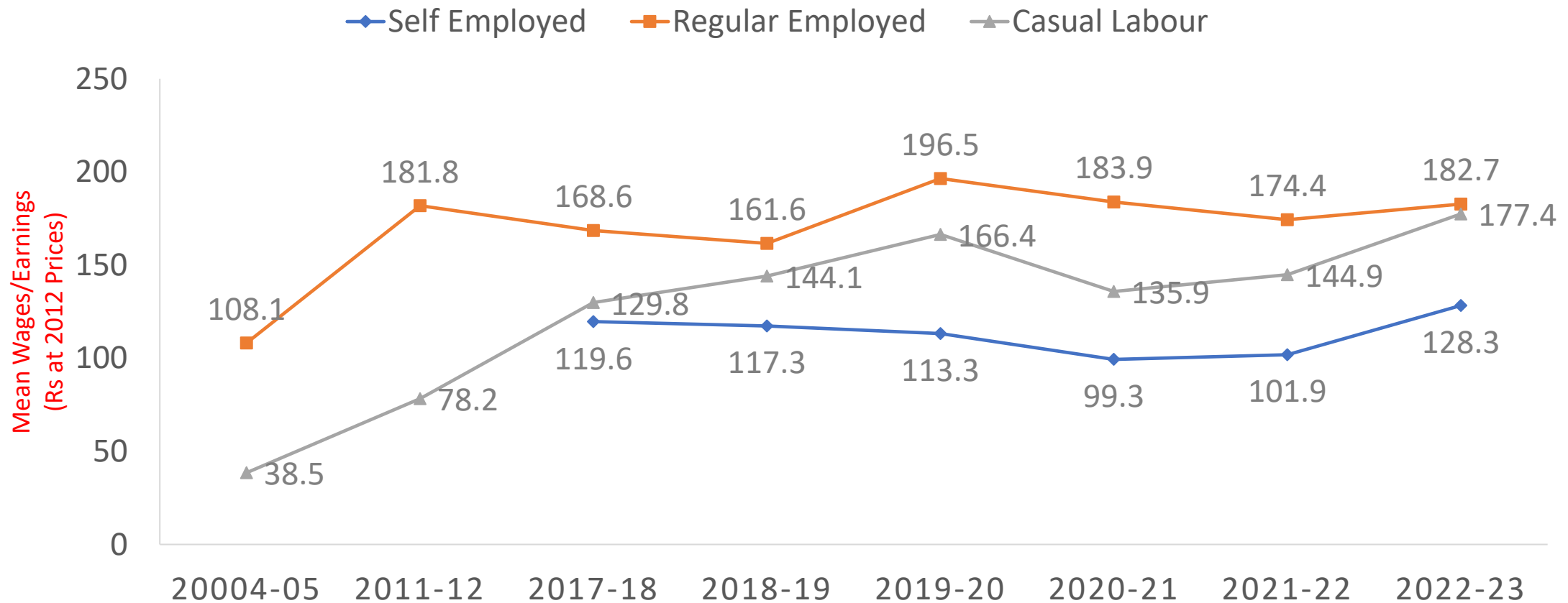
Source: Authors calculation based PLFS and CPI (Agricultural Labour at 2016 Prices) data

Real wages Urban India: 2004-5 to 2022-23

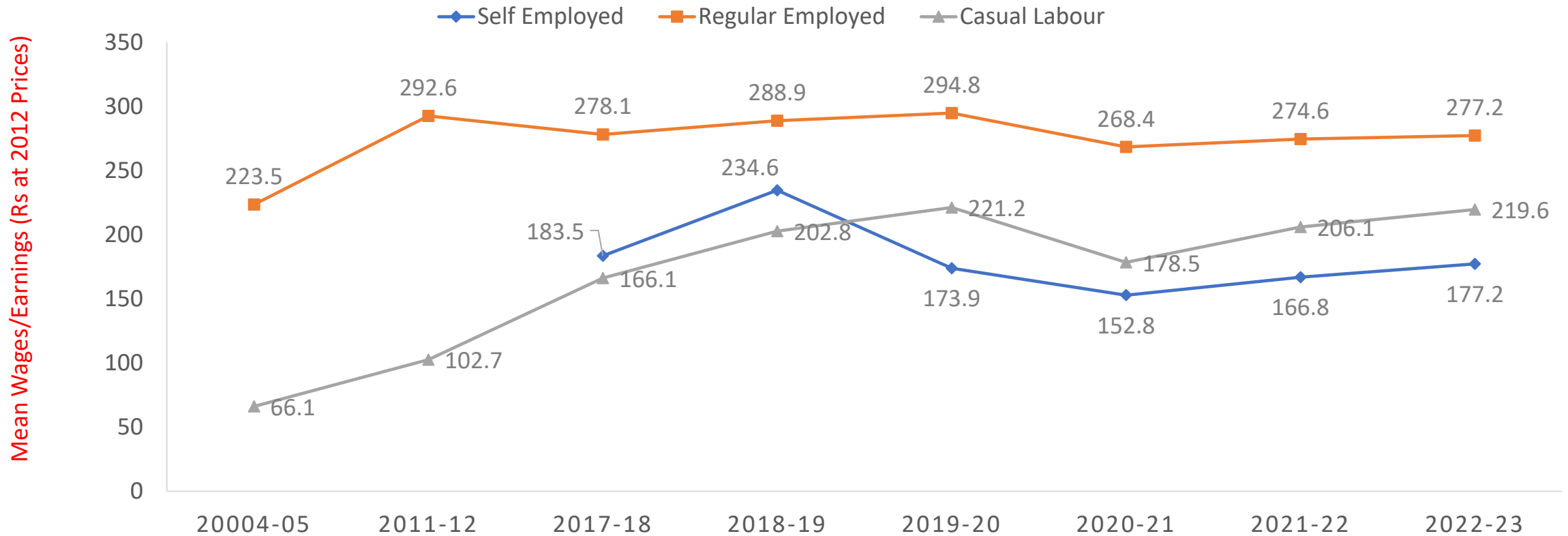


Source: Authors calculation based on PLFS and CPI (Industrial Workers at 2001 Prices) data

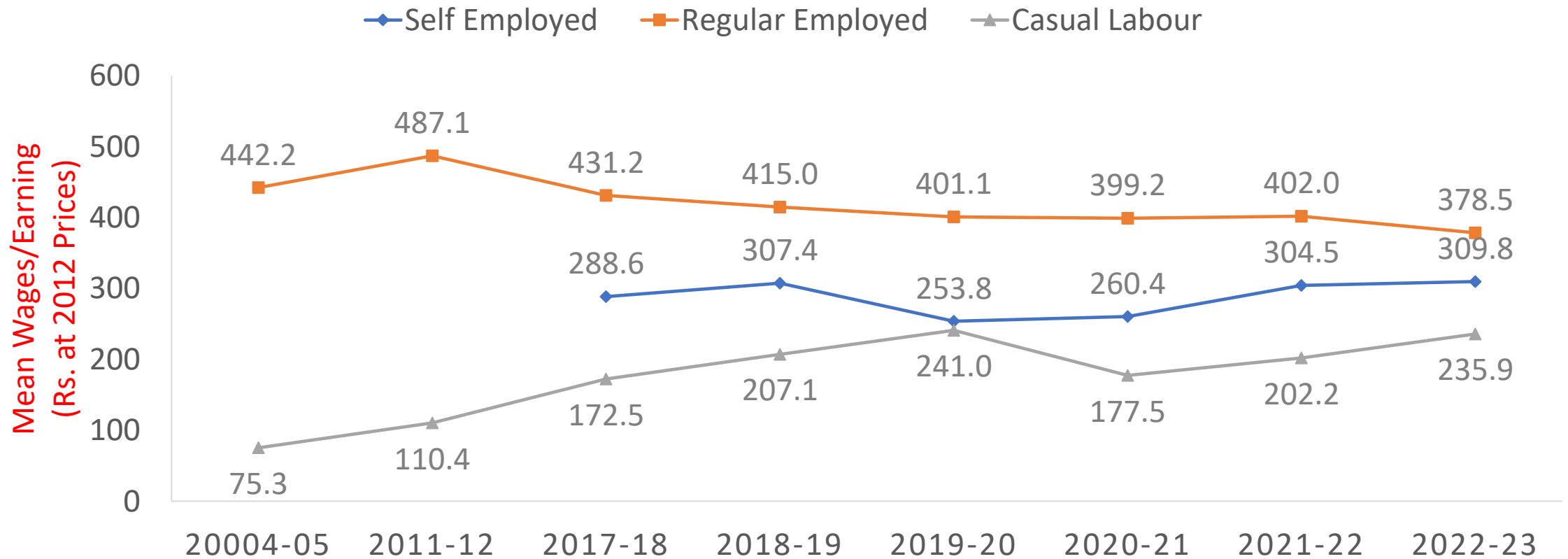
Agriculture: self employed earning, casual worker wages, 2005-2023



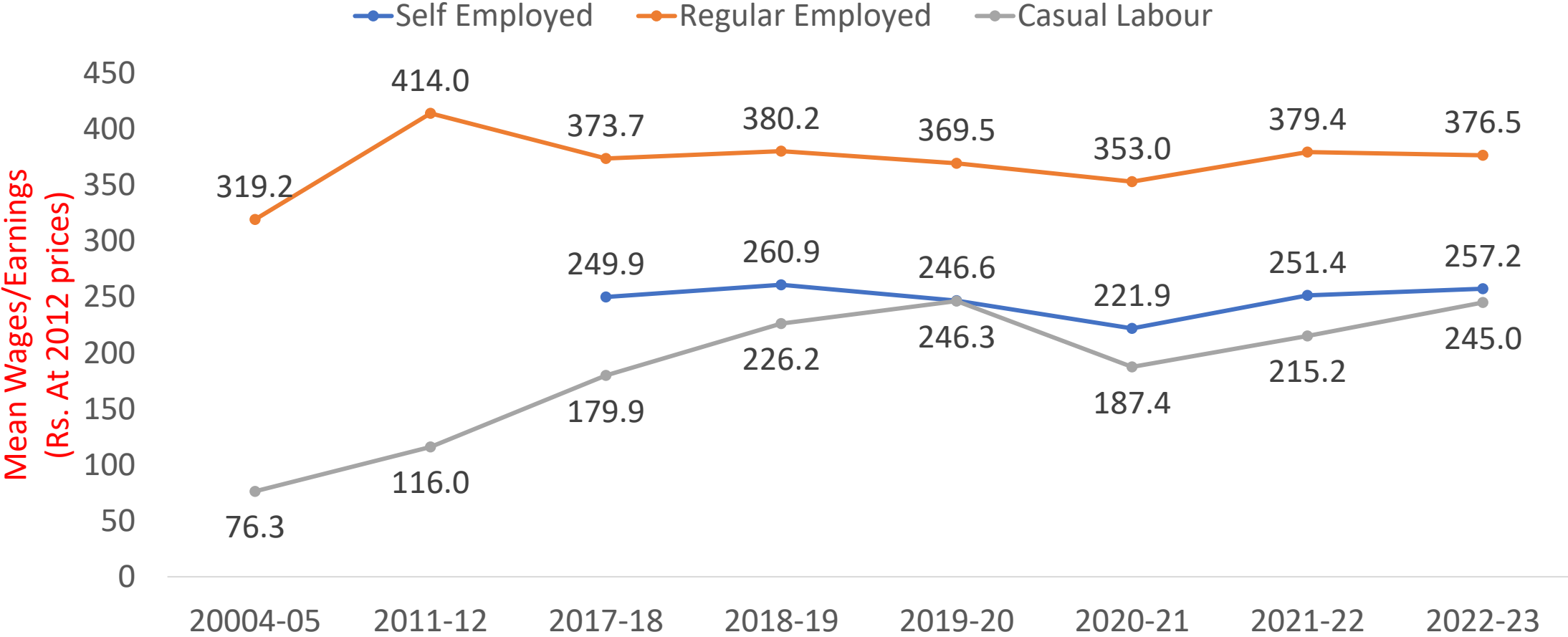
Manufacturing: SE earnings; Regular & Casual Wages, 2005-2023



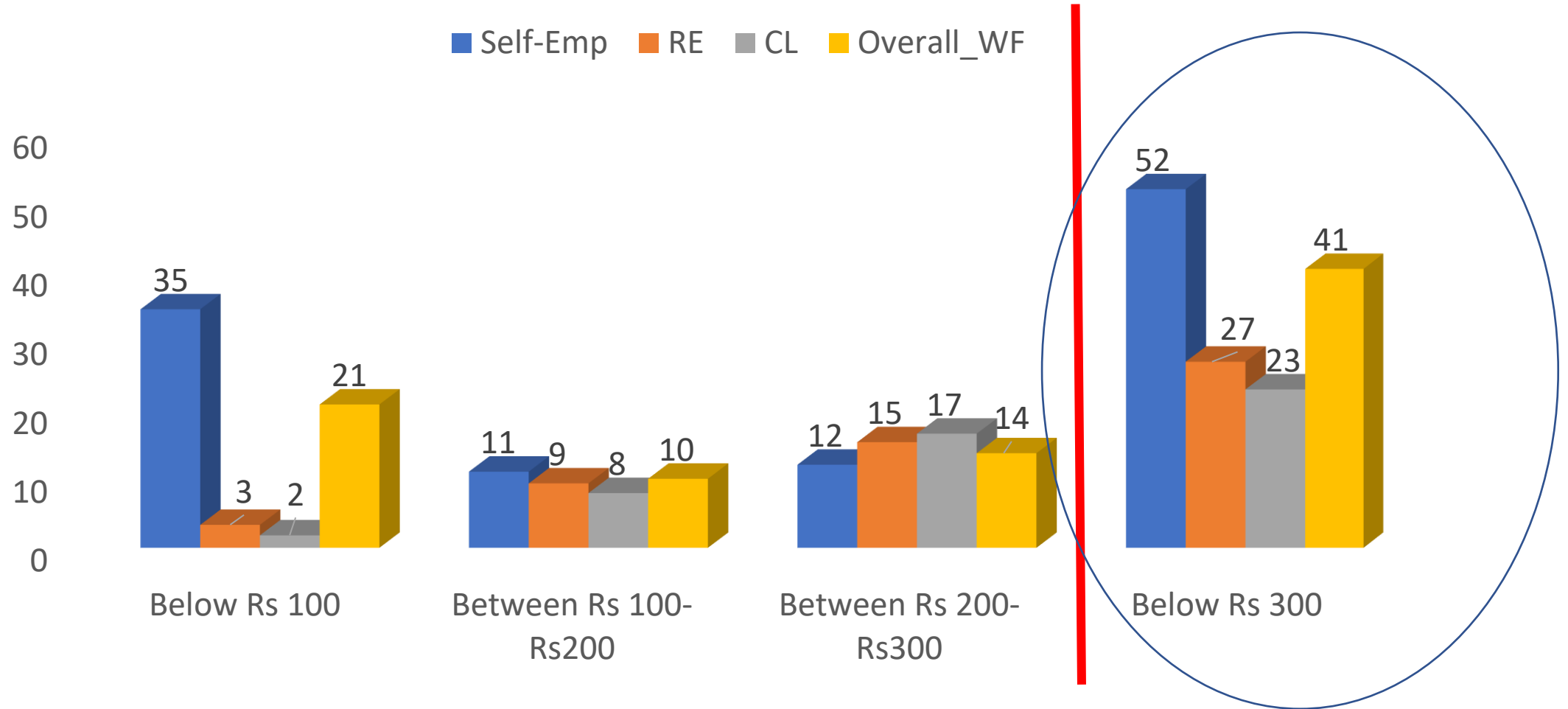
Non-manfg (construction): SE earnings, Regular, casual wages, 2005-2023



Services: SE earnings; Regular & Casual Wages, 2005-2023



2022-23: Earnings/Wage <Rs100 (Extremely Poverty line); Rs 100-200 (poor); Rs 200-300 (Vulnerable) per day



Source: Calculation based on PLFS 2022-23 Unit level data

Unorgan'd sector real wages also stagnate

	2010-11 to 2015-16	2015-16 to 2022-23
Manufacturing	3.7	1.6
Trade	3.4	0.8
Other services	5.3	-0.4
All	4.6	0.5
All, rural only	6.6	0.1
All, urban only	3.8	0.8

Annual growth rates of real "Emoluments per Hired Worker" (%)

- Pov can fall, even if real W stagnates. per-capita expenditure may rise over time if workers move to better-paid occupations (or states with higher wages, for migrant workers), or if WF participation rates increase.
- [Viral Acharya](#): the concentration of power among top-five private firms was declining between 2010 and 2015, but then rose sharply from 2015-16 with rising market concentration. 3 policy shocks, adversely impact empl generation in informal sector. & wage growth, as ASUSE shows. Consistent with [analysis of ASUSE by Mehrotra; & by Mohanan /Kundu](#).

More indirect information supportive of our argument

- Suicide among unemployed youth: NCRB data for 2018 vs 2022 shows: suicides up by one third – from 3 per 2 days to two per day
- CSDS data: what % now say in 2024 compared to 2019: MORE difficult to find jobs fall 62% vs 37%; LESS difficult to find jobs falls 57% to 33%
- Reservation & caste census demand (Bihar): Even ‘forward’ castes now want reservation – Jats Haryana; Marathas Maha; Kapus AP; Patels in Gujarat
- SO Govt NARRATIVE part of Post-Truth spread by govt/‘national’ media/whatapp/Twitter trolls. Voter saw thru, & delivered message!

Components of an Manufacturing Strategy for India

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WHAT GOVT CAN DO: A GROWTH STRATEGY FOR JOBS?

AGRARIAN investment:

- India's fork in road: Continue MSP price & income support + subsidies
VS Agri investment based model to raise productivity
- China: agri 4 times more effective in poverty red than indy/ services
 - But China ensured labour absorption by non-farm sectors; India: 44% of India's WF produces 15% of India's GDP
 - SE Asia :1950-1980 agri grew 6% pa (Ashwani Saith, 2000); contrast India 3.2% pa 1950-2020
- **Agri growth creates demand for manufactures; produces wage goods => generate non-farm RURAL jobs**

Creating Jobs for Youth: Components of an Industrial Strategy

1. Consumption expenditure growth in rural India has been low, . Government investment in agriculture is critical. But the government has primarily allocated funds to agriculture through subsidies and cash transfers for farmers at expense of public inv to boost productivity.
2. Unlike East Asian success stories, India has no industrial policy since economic reforms in 1991. No longer tenable. T India's manufacturing strategy should be cross-sectoral (horizontal), rather than products-based (vertical), such as seen in the current government's focus on 'picking winners' (eg for 14 mostly capital-intensive sectors.)
3. Allow the rupee to appreciate against the dollar so that exports remain competitive.
4. Focus on the 5 labour-intensive manufacturing sectors (50 % manufacturing jobs—garments, textiles, food processing, leather footwear and wooden furniture.
5. MSMEs are also better supported nationwide through a Cluster Development Program, remains weak.
6. Clusters have suffered from three problems—underfunding, fragmented input services and policy incoherence. T
7. better education in the past two decades. But compared with East Asia—where education supported industrial development. Rt to Apprenticeship
8. A continental country, land-locked states lacking an industrial base. Industrial corridors with industrial hubs are only now developing slowly. T Most advanced are the western Delhi–Mumbai Industrial and Freight Corridor and the eastern Amritsar to Kolkata Corridor. These linking hinterland to coast and enabling GVCsl links,
9. Invest in R & D capacity . India can land spacecraft on the moon, launch thousands of satellites and attract over 800 international firms to establish Global Capability Centres, can mobilise the professionals to foster its product & vprocess design capacity. 1.69 p% R&D; China's 2.25 per cent or Korea's 4 per cent.

Performance-Linked Incentive (PLI) since 2022 ?

A Fiscal Subsidy for Production?

- *“Incentives will be disbursed only after production has taken place in the country. Linking incentives to output: The calculation of incentives will be based on incremental production to be achieved at a high rate of growth.”*
 - Provides on average 5% of production value as incentive.; announced 2020; Budgeted FY 21-22 - \$26 bn (Rs 2 lakh cr) over 5 yrs
1. Picking winning firms (rather than sectors) – opposite of E Asia
 2. Giving bureaucracy a role in picking winners: harks back to licence-permit raj
 3. Choosing 12 of 14 sectors that are capital intensive
 4. Significant fiscal cost of PLI: Rs 1.5 trn over 5 years; when funds needed for human capital (TVET, Hi ed, R&D)
 5. Govt risking demand for extension of benefits beyond 5 yrs
 6. No expectation winning firms are to X – Opp of E Asia
 7. Employment linked incentive scheme Budget 24?

Mobile phones have benefitted, but...

- Bank of America 2023 report: Mobile phones are 21.5% of India's electronics domestic demand & are growing at 15% compounded annually, calling the mobile phone PLI scheme a success story. "Since FY17, mobile phone production/exp
- Mobs not "manufactured"; practically entire phone components imported, assembled in India; Are components being manfd? No, all imported, mostly Chinese!
- Samsung production is prior to PLI!
- Apple production decision is prior to PLI,!it has only grown, its exports also grew; 6lak jobs, direct and indirect – not to be scoffed at, but due to PLI? So "allow Chinese ancillaries" to produce here,
- **ISSUES: DAS: India only 0.5% of Apple global mkt, so India must export to attract MNC – going to VN, Malaysia, Thailand, Bangla for garments, etc; GVCs represent 70% of global trade of goods**
- **Are we skilling for the PLI sectors? Is industry involved?**

INDUSTRIAL POLICY NEEDED for JOBS to GROW: Consequences of No IP...

PROBLEM: Unlike E Asia, lack of Manufacturing policy for 25 years since 1991

- Rightly reduced tariffs from 150% in 1990 to 40% in 1998, to 10% in 2002. BUT
 - SPEED: Too fast; and fell below WTO upper bound rates: which affected small/large manufacturers adversely
 - SEQUENCE: reservations for SSIs of 836 products (end came post 2005) - Without ending res We permitted int'l competition first, instead of dom competition first
 - STRUCTURE OF TARIFFS post-FTAs: Finished/cons goods tariffs reduced, so imports flooded in; but tariffs on raw mtrls/intermediate inputs for dom manf were higher – IDS emerged, reducing effective rate of protection – **SO FLOODED by IMPORTED Finished Goods**
- Little focus on labour-intensive manfg

Reversing aborted Structural transformation

1. Needed Coherent Manfg Policy aligned to X/M policy

- **Correct the IDS duty structure**, esp with China – examine ERPs
 - Tariff changes since 2014 in electronics have improved dom electronics manfg, but components all imported
 - ERPs show IDS: paper/paper products, chemical/chemical products, pharmaceuticals, computer, electronics and optical products, machinery and equipment, other transport equipment (FICCI since 2012) – will help Corporate incentives for inv
 - GST only levels the playing field at best; provides for refund of unutilised ITC where credit accumulation is on account of IDS; not consistent with infant indy argument
- **CONTRAST: Auto sector**, with no IDS. Auto Manfg Plan (2006-16);
- Pharmaceuticals – same story
- Policy implication of IDS: Does not mean raising tariffs, BUT raising Tariffs alone will not transform manfg: Use anti-dumping measures, safeguard measures ; BUT this must be part of a strategy – incl REER, which has been appreciating!

Table.3: Total Number of Enterprises in the organised and unorganized sector in 2010-11 & 2015-16

A Policy Blind Spot: The scale of enterprise informality in India

Sectors		Number of Enterprises (Million)		Share (%)	
		2010-11	2015-16	2010-11	2015-16
Unorganized (Manufacturing, Services (NSS) & Construction (EC))	Registered under any act/authority	16.8	19.6	28.86	30.30
	Not registered under any act/authority	40.8	43.8	70.05	67.73
	Construction (EC)	0.63	1.3	1.09	1.97
	Total	58.3	64.7	100	100
Organized	Manufacturing: Registered under Factories act, companies act or other (ASI)*/ Formal	0.16	0.17	6.84	7.41
	Services (EC)	2.17	2.06	92.87	92.18
	Construction (EC)	0.007	0.009	0.30	0.41
	Total	2.3	2.2	100	100
Total Unorganised				96.1	96.7
Total Organised				3.86	3.34
Total Unorganised & Organised		60.6	66.9	100	100

2. Special Packages for 5 Labour-intensive Industries to Create Jobs – Consistent with sectoral/vertical approach?

- 5 Inds=50% of manfg jobs. Apparel/garments (9.3 mn); textiles (6.6); Food processing (5.3); wood manfrs/furniture (2); leather/footwear (1.5) – potential for X but growing domestic demand – 2004-2011 saw rising dem => jobs => RAISING Cons exp on simple manfrs - recall 7.5mn jobs pa!
- 45% India's X from unorganized sector (suppliers to org) which create jobs: absent sector-wise packages, India losing to Vietn, Bangladesh
- Helps SMEs: Encourage scale economies (Viet, Bangladesh); counters WDR23 critique, Indian firms don't grow
- Demographic grps to benefit: YOUTH, SCs, Minorities
- “National champions” a stated policy goal! Concentration of 5 largest corporates at expense of next 5 (Acharya, 2023) – wealth/inequality!

3. Cluster dev. to support MSMEs with prod'n linkages with larger units – estd strategy of late industrializers; laggard is India

- 3/4th of non-agri empl is unorganized (<10 workers): 5500 organic clusters
 - 1450 modern indy; 4000 handloom, handicraft, other traditional products
- Cluster dev in MSME Miny; Textiles – need to raise prod'ity/quality/scale:
 - FINANCE: Poorly funded: < Rs 1000cr for 5500 clusters
 - INPUT serv: Cluster level integration needed in Credit; Techno; Skills; Market dev
 - POLICY COHERENCE SKILLS: District Indy Centres + Indy Assocns cooperation
- Potential: 100 clusters in China manfr socks – Induce new clusters along 5 Indy-Infra Corridors along Golden Quadrilateral;
 - GVC participation along eastern coastal (Vizag-Chennai Ind Corridor)
- Demographic groups to benefit from jobs: Youth, esp girls since nearer home

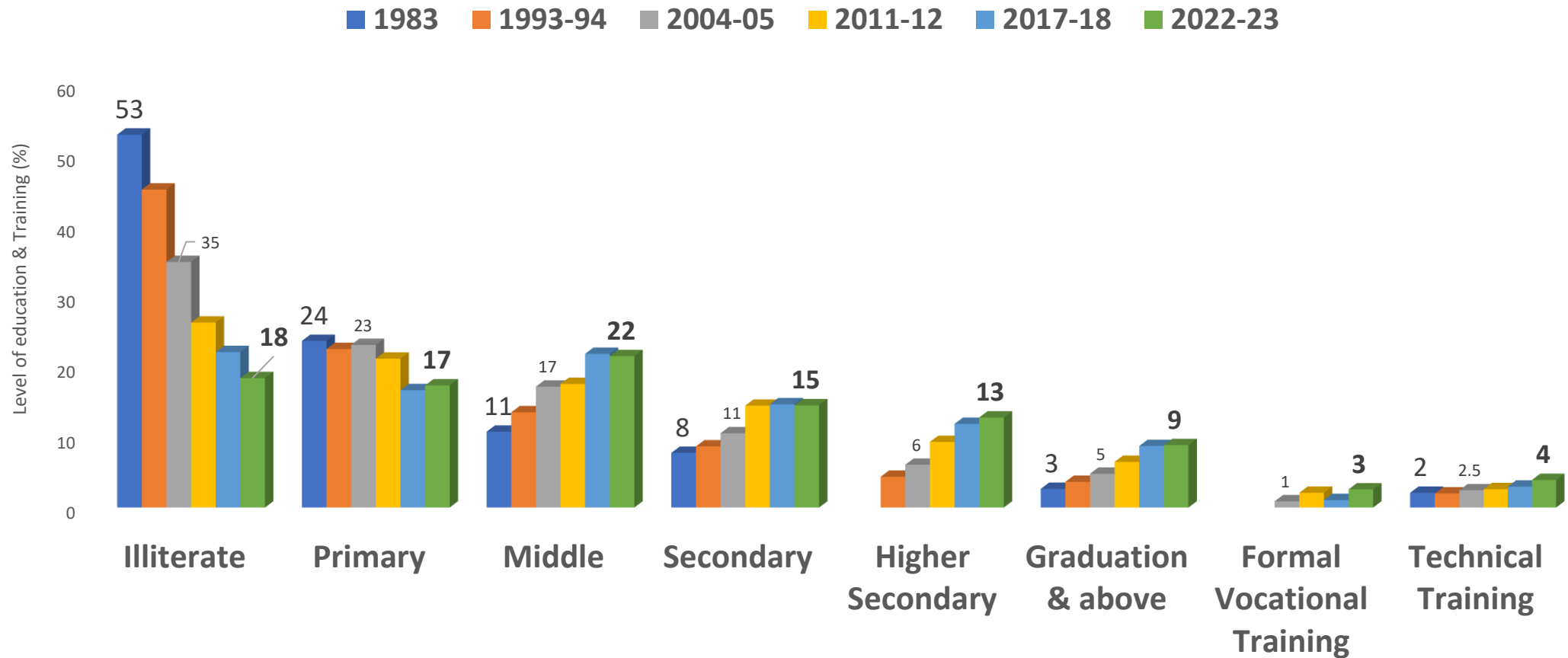
4. Manufacturing Policy: Most mid-sized towns have poor infra: Align urban infra dev with manfg clusters to create jobs

- MOUD funds AMRUT: Reqd Infra investment for small towns; ATTRACTS => manfg investment into Clusters, enabling MSME growth
- MOUD not choosing towns with clusters of unorganised sector. MOUD and MSME Ministry coordination needed
- Better infrastructure in small towns also prevents youth, all better educated than before, from migrating to larger cities
 - Sharp contrast between pattern of urbanization of China vs India
- **This will help youth, and within that group, especially the girls.**

5. Human Resources – East Asia Educ/TVET Designed to Underpin Industrial Policy Jobs for Girls

- *Female LFPR falling: girls lack Skill opportunities: Needed* Skilling in clusters, with jobs, rather than standalone NSDC-type VTPs; Rural girls mobility concerns (TAG Survey): 1st adv => want **jobs closer to home**
- Locate Training in clusters => 2nd adv: **industry engagement** in skilling is easier. Skill India will only succeed with greater employer engagement.
 - Job availability in clusters close to Skill Centres enhances **demand** for skilling -3rd adv.
 - Will raise **productivity & output quality in manufacturing – pay for itself**
- But most skills programmes are supply-driven, managed and financed by government.
 - Leads to mismatches between industry needs and skill priorities; leads to low placement after skilling. How do we make them demand-driven? NSSO to collect skills data: state-wise skill gap baseline needed first

State of India's Human Capital A Huge Problem: Working-age (15 to 59) Population by Level of education & Training, 1983-2023 (Rajan 2024; WDR 2024)



TVET reforms shd have 2 Objectives: a. Divert students from gen'l acad educ; b. Quality TVET increases employability =>makes TVET aspirational, that needs Industry engagement

- 2 PUBLIC Institutions: **ITIs**: Girls's Enr in ITIs low; males 85%; few courses in services, new trades, lack girl's hostels, few female teachers.
 - VE in **Sec Schools** (contrast China) – expand; incentivise voc ed in sec schools with stipends
- Govt needs to **incentivise Indy** to contribute at pub/pvt VTPs thru curr design, internship, placement counselling for **middle level functions**
- **Higher Level job functions in Corp sector**: Nat'l Innovation System needed: Just higher R&D exp not sufficient(0.5% of GDP) - More effective public expenditure
 - a. STEM teachers in Sec Sch;
 - b. Incentivise Pvt Corporate R&D (0.2% of GDP);
 - c. freezing financing for pub sector institute-based R&D, expand to Univs – NONE of it will pay off without Manfg capacity
- **INCREASE SD FUNDING**: Private Industry (EMPOYERS, not pvt trng providers): 62 countries – India needs an RIC;

6. & 7: Two more components of India's manufacturing strategy

- **Industrial corridors to engage in GVCs and meet X and Dom demand for manfrs**
 - 5 ind corridors being built: a. DMICs, with 8 nodes or ind parks; b. Amritsar-Kolkatta IC.
 - Remaining 3 planned in South: Chennai-Bengaluru; Vizag-Chennai; Bengaluru-Mumbai
 - Without central govt financing this trunk infra will not be forthcoming
- **Creating a design & innovation institutional system:**
 - industrial policy needs a design ecosystem. (Design labs that can contribute to create digital ecocystem. Design labs work to design quality products, carry out digitization, connect electronic systems, innovate for automation – all needed if India is to adapt & develop Indy 4.0 tech)

Modern Services jobs in Pvt Sector

- Grown fastest over 2004-5 to 2017-8. MOD SERV: **telecom; IT; banking; insurance; pension; airlines; rlys; tourism; auto services – all require educ**
- **Health:4.4 to 5.6mn, Education 14 to 17.6mn 2012-2018 (16% of serv)**
 - But mainly pvt; not public – Requires PE/GDP rise (as NEP, NHP demand)
 - Other pub emp, police/1000 pop low
- **Growth strategy for jobs: 1. Resume a path of Structural Transformation: India cannot skip the manfg stage; a Manfg Policy => mod serv job growth**
 - 2. Underemployment: earlier an agri feature, but now of Informal tradl services: workers need to move to indy from services; agri workers have to move to construction (infra + housing) – requires sustained pub inv**