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Human capital erosion

India's Human Capital Index rank is a wake-up call

If policymakers are inclined to read the signals correctly, the latest Human Capital Index (HCI) from the World Economic Forum should be seen as a serious reality check. The HCI measures a country's ability to nurture, develop and deploy talent for economic growth. Set against the proud claims of being among the world's fastest growing economies, an HCI ranking of 105 out of 130 countries should certainly be a cause for disquiet. More so for a ruling dispensation that had made job creation the centrepiece of its "development" promises during the 2014 elections. India is the worst performer among G20 members ranked in this index with Saudi Arabia and South Africa – countries that scarcely bear emulation – ranked above at 87 and 88, respectively. Worse, the country does not acquit itself creditably among South Asian peers either, outranking only Pakistan (118) and Nepal (108). Overall, India ranks at the top of the bottom quartile, which means it can draw some faint satisfaction in being better off than such countries as Yemen, Chad, Haiti and Burundi among others.

India has been a long-term sufferer of several misalignments in the labour market. The obvious one is the coexistence of high unemployment and the severe shortage of skilled labour in even medium-tech industries like garments. At the other end of the scale is a high level of tertiary degree holders, especially in subjects covered under the acronym STEM (science, technology, engineering and mathematics), who struggle to find jobs that match their qualifications. This means that India's high-tech industries are not expanding fast enough (the report notes that India had the largest share of tertiary degree holders at 78 million). And finally, there is the embarrassing case of rapidly falling rates for women's participation in the labour force, from 35 per cent in 2004 to 25 per cent today. No surprise, on the metric of the gender employment gap India ranks at 121.

Successive governments have made manful attempts to correct these anomalies. One favoured solution has been public-private participation in investments in the poorly functioning Industrial Training Institutes and through the National Skill Development Corporation. These have had successes but not enough to influence pervasive change (this in part is on account of the ingrained prejudices within corporate India to hire women in the workforce). For a young country like India, the problem is about to become more acute now that the Fourth Industrial Revolution – the growing use of robotics – is not far away. That may help the relatively high number of young STEM graduates but it bodes ill for the thousands of youth, inadequately educated and trained, who join the workforce every year. This government has made some attempts at solutions: such as amending the apprenticeship law and the proposal to introduce short-term employment contracts, which could be a game changer for employment-intensive industries like garments and construction. Much, however, depends on how states approach the issue of training and employment. Without a concerted policy shift, India's so-called demographic dividend will remain its biggest disadvantage.