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Rethinking India's Growth-Obsessed Economic Policy: From Chasing Trillions to Creating Jobs

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Abstract

India's economic policy has long been obsessed with high growth rates, often sidelining other crucial goals like job creation, which has lagged significantly. In light of this slow job growth, critics are now pushing for a greater emphasis on employment, arguing it's vital for sustaining economic progress. However, this paper argues that these criticisms are misguided. The connection between job creation and growth is both theoretically and empirically weak. Moreover, these critiques mistakenly prioritize economic growth as the end goal despite its tenuous link to welfare metrics such as job creation. Instead, the paper calls for a fundamental shift in policy focus: from chasing growth targets to addressing concrete measures of economic well-being, such as robust job creation, to more effectively enhance societal welfare and tackle broader socioeconomic issues.

Keywords: Economic policy; Economic growth; Jobs; Employment; Welfare; India

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1 Introduction

For years, the Indian economic policy has been fixated on one goal: economic growth. The relentless pursuit of sustaining a high growth rate has overshadowed other critical areas, such as job creation, which, while acknowledged as desirable, has not always received the same level of strategic focus.

The Make in India initiative, launched in 2014, epitomizes the prevailing economic strategy. While the official website provides scant details on precise objectives, the initiative's primary focus is unmistakably on driving economic growth through a revitalized manufacturing sector as it seeks to "transform India into a global design and manufacturing hub" (Invest India 2024). Yet, it notably lacks any commentary on employment or job creation, the initiative's relationship to the labor sector remaining undiscussed and undefined.

The initiative's core focus is also apparent when examining the 25 sectors it targets. Except for construction, none of these sectors are known for high labor intensity. They include automotive, aviation, defense, electrical machinery, mining, oil and gas, and space—industries that generally don't produce many jobs per unit of output.

Growth has also taken precedence when assessing the initiative's progress. On the program's eighth anniversary, the government issued a press release celebrating the doubling of annual FDI since the initiative began (Press Information Bureau 2022a). Employment was mentioned only once and in rather vague terms. In sharp contrast, economic growth featured prominently, with no fewer than eight references, frequently backed by specific metrics.

All signs point to growth remaining the centerpiece of economic policy. In 2022, on the 75th anniversary of the Indian independence, Prime Minister Narendra Modi announced his grand vision of turning India into a developed nation by 2047 (Press Information Bureau 2022b). This vision was later dubbed *Viksit Bharat*. Like Make in India, Viksit Bharat is light on specifics. Given this lack of concrete guidance on what version of a developed India the Viksit Bharat vision is aiming for, researchers in both private and public sectors have come up with their interpretations of what specific benchmarks need to be achieved for India to make this transition. While some of them have mentioned

attaining global benchmarks in health and education as worthy targets, none of them think that the grand vision would be complete without the nation hitting ambitious growth targets.

Not only do these commentators agree that economic growth is at the core of the vision, but they also appear to have reached widespread consensus on what specific number the GDP must breach to make this transition: USD 30 trillion. For instance, in recently released reports, the NITI Aayog (NITI Aayog 2024) and the NCAER (Mohapatra & Pohit 2024) both mentioned crossing this threshold as a target, with the latter institution calling it a "cornerstone of the Viksit Bharat vision."

At the same time, some experts have been sounding alarms about India's ability to maintain its growth momentum. One of the main concerns is the weak state of the labor market. Before the outbreak of the COVID-19 pandemic, less than 50 percent of India's population aged 15 or above was employed. In a sample of 140 countries, India ranked in the bottom 15 percent.[i] Reports published by prominent institutions and publications like McKinsey and Harvard Business Review argue that India needs to advance in this area (Chakravorti 2024). Maintaining high economic growth won't be feasible without creating more jobs.

Bringing job creation into discourse on economic policy is a welcome change. Nonetheless, these well-intentioned criticisms of India's growth-centric economic policy are troubling for several reasons.

2 Myth of Jobs as Growth Drivers

Let's start with the more apparent, yet not the most critical, issue of linking sustainable growth to job creation. There is no solid theoretical or empirical foundation to support that claim.

Neoclassical growth theory, the dominant model in mainstream economics, posits that job growth is just one of many factors contributing to economic expansion—not a prerequisite for it (Solow 1956; Swan 1956). For instance, economic growth can occur through productivity improvements. As technology or processes advance, businesses can increase output without hiring more workers. They might even reduce their headcount. Similarly, other factors—rising capital intensity, increasing trade, and shifting production

to faster-growing albeit less labor-intensive sectors, can all drive growth without necessarily creating new jobs.

Neither is job creation a sufficient condition for sustainable growth. One can end up with a situation where new jobs don't add to output—replacing capital and machinery, swapping out one full-time worker for multiple part-timers, or bringing in several less-productive workers to do the job of one high-productivity employee.

Setting aside these theoretical concerns, the empirical link between job creation and economic growth is far from definitive. Cross-country comparisons indeed do indicate a positive relationship. Nations with higher average annual growth rates from 2000 to 2019 also tended to have a larger share of people aged 15 and above in employment by the end of the period.[ii]

Figure 1A: Employment rate 2018/19 (national estimates) and average real GDP growth 2000-19

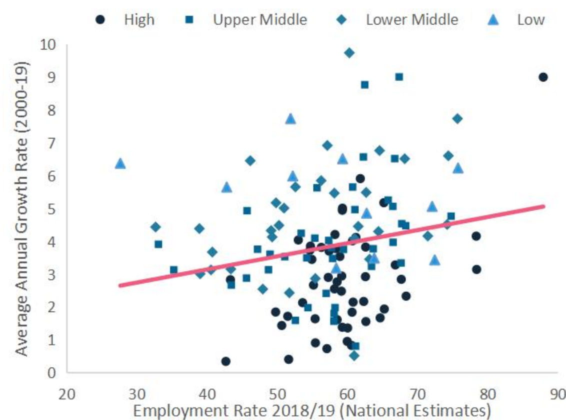
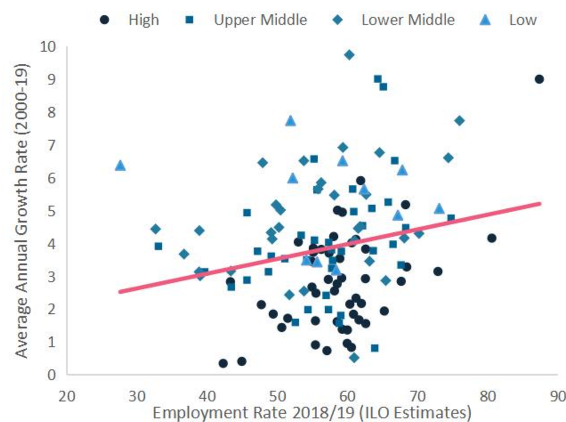


Figure 1B: Employment rate 2018/19 (ILO estimates) and average real GDP growth 2000-19



Source: Author's calculations based on data from World Development Indicators (World Bank 2024). Employment rate is defined as the share of a country's population aged 15 and older engaged in economic activities during a short reference period.

The correlation coefficient using national employment rate estimates (Figure 1A) comes at 0.21. The International Labour Organization (ILO) produces a similar employment rate series drawn from the same labor force surveys as the national data but designed for better cross-country comparability. When using the ILO series (Figure 1B), the correlation coefficient remains virtually unchanged at 0.22.

The correlation shifts dramatically depending on the sample of countries. It's noticeably stronger among high-income nations, showing a correlation of 0.49 with national estimates and 0.54 with ILO estimates. For upper-middle and lower-middle-income countries, the correlation weakens but still exceeds that of the global sample, ranging from 0.30 to 0.36. However, the positive relationship vanishes for low-income countries. The correlation coefficient drops sharply to -0.41 using national estimates and -0.21 with ILO data. This observation, however, comes with a significant caveat: the correlation is drawn from only 11 countries. Employment data for low-income nations are notoriously scarce. Therefore, the correlation derived from this limited sample may not accurately capture the broader relationship holding in low-income countries.

Still, the fact that India has managed to sustain high economic growth while simultaneously expanding its employment base suggests that the positive correlation seen in cross-country analysis is more of a stylized fact than a hard-and-fast rule. It doesn't necessarily establish a direct causal link between the two. In this light, the claim that robust job creation is essential for sustaining growth seems a bit perplexing. If India has achieved growth in the past without significant job creation, why is it suddenly crucial for future growth?

One way to interpret this argument is to suggest that India's rapid growth, achieved without a corresponding rise in employment, might have been an anomaly and one that can't be sustained in the future. Therefore, India must embrace a more conventional model, where growth is closely tied to job creation, to keep its economic engine running. But is this argument sound? Has India's growth narrative really been that unique?

Let's consider the empirical evidence (Table 1). Between 2000 and 2019, out of a global sample of 194 countries, 44 managed to sustain an average annual growth rate exceeding 5 percent.[iii] Among these 44 countries, employment rate data at the start and end of the period are available for only 18. According to national estimates, about one in three of

these 18 nations experienced a decline in employment rates. The ILO estimates, however, present an even bleaker scenario: nearly half of the fastest-growing economies witnessed a drop in employment rates.

Table 1: Change in employment rate: Fast-growing economies

Period	Global sample		Sample with employment data			
	N	N (avg. growth > 5%)	N	N (avg. growth > 5%)	Share with declining employment rate (%)	
					National Estimates	ILO Estimates
(1)	(2)	(3)	(4)	(5)	(6)	(7)
2000-2019	194	44	94	18	*33*	*50*
2000-2009	194	52	107	24	*38*	*54*
2010-2019	194	47	117	24	*42*	*29*

Source: Author's calculations based on data from World Development Indicators (World Bank 2024).
India is a part of the sample in Columns (2)-(7).

Breaking the period into two decades doesn't significantly alter the picture. According to national estimates, around 40 percent of the countries that managed an average growth rate above 5 percent in either decade did so without expanding their employment base. The ILO estimates paint a similar picture, with 54 percent of fast-growing economies seeing a decline in employment rates during the first decade of the 21st century, dropping to just under 30 percent in the second decade.

These findings indicate that India's ability to sustain high growth without a corresponding increase in job creation is not so unique. Many other nations have experienced robust economic expansion despite enduring a contraction in employment rates.

Furthermore, there's no evidence connecting low growth with declining employment rates (Table 2). Among the 94 countries with available employment data, 28 experienced an average annual growth rate below 2.5 percent from 2000 to 2019. Yet, while many rapidly growing economies saw their employment rates decline, most of these slower-growing countries witnessed rising employment rates. Even when splitting the period into two decades, the fact remains: low growth didn't prevent many countries from generating jobs.

Table 2: Change in employment rate: Slow-growing economies

Period	Global sample		Sample with employment data			
	N	N (avg. growth > 5%)	N	N (avg. growth > 5%)	Share with increasing employment rate (%)	
					National Estimates	ILO Estimates
(1)	(2)	(3)	(4)	(5)	(6)	(7)
2000-2019	194	52	94	28	*57*	*68*
2000-2009	194	49	107	27	*44*	*44*
2010-2019	194	73	117	43	*70*	*21*

Source: Author's calculations based on data from World Development Indicators (World Bank 2024).

3 The Historical Trap of Prioritizing Growth

It's evident from the earlier discussion that there's no solid theoretical or empirical backing for the idea that job creation is essential for India to sustain robust economic growth. Yet, that's not the main issue with the well-meaning arguments pushing a job-focused economic policy. The graver fallacy is that these arguments still place economic growth above job creation: jobs matter, but only as a means to fuel economic progress. If one accepts this hierarchy of priorities, one might even argue that if India could somehow become a USD 30 trillion economy by 2047 without creating jobs, it wouldn't be a cause for concern.

But why prioritize economic growth over all other objectives, like job creation, in the first place? The answer is rooted in history. The measure that dominates economic policy today was formalized less than a century ago and was born out of necessity. In the early 1930s, the US was grappling with the Great Depression. Among the numerous challenges facing the government was the lack of reliable data to gauge the economy's health. Existing indicators, like stock indices and freight car loadings, were woefully inadequate. Recognizing this critical blind spot in economic policymaking, President Franklin Roosevelt tasked Simon Kuznets in 1933 with developing a system of national accounts. Kuznets presented his report to Congress a year later (Kuznets 1934). He estimated that

the US economy had shrunk by nearly 50 percent since the stock market crash. The report was laced with caveats. Yet, one was of more importance than others. Kuznets cautioned that the welfare of a nation could "scarcely be inferred" from this single estimate.

The push to develop a system of national accounts gained momentum (Pilling 2019). From 1936, conferences bringing together academics and government officials were convened to debate and finalize the details. As the decade drew to a close, the economy had begun to recover, with the Great Depression fading into the past. But a new threat loomed on the horizon. With the threat of a global war, priorities shifted. A measure that could gauge the general economic well-being of citizens was no longer sufficient—it also needed to assess the economy's capacity to sustain a full-scale war. World War II proved instrumental in elevating GDP to its singular status (Lepenies 2016).

Starting in 1940, as the economic landscape became entangled with wartime strategy, the conferences moved from the public eye into more secretive settings (Pilling 2019). The decision to include war expenditures in national income calculations was made under this context. This move directly contradicted Kuznets's views. A few years earlier, he had argued against such inclusions, asserting they reduced people's consumption capacity. More generally, he believed that anything undermining social welfare should be excluded from economic measures, extending his stance to activities like advertising, speculation, and the illegal practices of gambling, extortion, and prostitution. Such criticisms were brushed aside. The goal of measuring overall economic well-being was overshadowed by the new priority: quantifying the totality of market activity.

The Bretton Woods Conference, which gave rise to the International Monetary Fund and the World Bank, aimed to establish a framework for international economic cooperation, focusing on post-war reconstruction, stability, and prosperity. GDP became central to the operations of these new institutions (Pincus & Winters 2002). After the war, the emphasis on rebuilding and fostering economic growth in war-torn Europe and Japan—bolstered by aid programs like the Marshall Plan—further kept GDP at the forefront of US policy. Success was often measured by GDP growth (Gaddis 2005). During the Cold War, high GDP growth rates became a tool for the capitalist West to assert its superiority over the communist East. What went unnoticed, however, was that these comparisons

relied on a market-based metric to measure the performance of a market-based system against a non-market one.

The institutionalization of GDP has turned growth into a referendum on effective governance and economic stewardship, placing it at the heart of policy. Politicians and governments have leveraged growth to bolster their legitimacy, justify policy decisions, and attract voters. From the government's vantage point, higher growth has one particular advantage. It means increased tax revenues, which can help fund public services and reduce deficits.

What's particularly troubling is how this rigid focus on growth has turned GDP into a proxy for economic welfare. As historical context and Kuznets himself cautioned, GDP was never intended for this role. Few governments and political leaders in the past fully grasped the limitations of the measure, using it as just one of many inputs to shape their policies. President Roosevelt, who commissioned Kuznets, is a prime example (Pilling 2019). He took Kuznets's advice to heart, recognizing that the headline number alone wasn't the whole story. Instead, he chose to focus on metrics more directly tied to welfare. A deeper analysis of the same data revealed critical insights: skyrocketing inequality, faster decline in blue-collar wages compared to white-collar rates, and the relative immunity of property owners to the crisis. The imprint of these findings is hard to miss in Roosevelt's radical New Deal policies, which prioritized putting idle labor back to work over mere economic expansion.

Yet, the original intent of the measure isn't the core issue. If a measure effectively captures a concept, its initial purpose is less relevant. The academic community, often as enthusiastic as governments in adopting GDP, has identified correlations between GDP per capita and various indicators of economic well-being. These correlations have helped legitimize GDP as a summary measure of socioeconomic well-being. However, these correlations are stylized facts, not immutable laws of nature like those in the hard sciences. There are numerous instances where the link between growth and measures of economic well-being falters (Jones & Klenow 2016). The disconnect between growth and job creation highlighted in this paper is far from an isolated case.

4 Conclusion

In summary, making job creation a policy target is undeniably beneficial—but not for the usual reason of hitting growth thresholds. Instead, it's valuable because job creation is a tangible outcome that directly impacts the well-being of a wide swath of society. Moreover, it's a metric that has been signaling distress for some time now, even with India experiencing strong economic growth.

More broadly, economic policy must shift its focus from an obsessive fixation on economic growth to outcomes more directly related to welfare. Given that its original formalization did not embrace the premise of capturing welfare, it's unsurprising that GDP falls short of fulfilling this objective. Policymakers need to recognize this fundamental flaw. Achieving ambitious growth targets and hitting impressive GDP levels mean little if they don't translate into improved living standards for the general population. While targeting growth can still be worthwhile, it must first be validated as a meaningful proxy for metrics that genuinely matter to the public. Pursuing growth for its own sake is a misguided approach to public policy. Furthermore, with advancements in data capabilities, there is no reason for public policy to remain fixated on a single metric.

Validation must also be context-specific. Just because growth may serve as a reliable proxy for certain outcomes in specific situations doesn't mean it will universally apply. A good physician doesn't cling to a popular treatment that's ineffective for some patients, even if it works for others with similar symptoms. Instead, a good physician seeks out alternatives.

Finally, beyond reshaping priorities, Indian economic policy would also gain from abandoning vague targets in favor of more concrete ones because relying on ambiguous objectives creates several issues.

First, vague objectives create a vacuum that anyone can attempt to fill. The Viksit Bharat initiative and the subsequent embrace of the USD 30 trillion GDP target exemplify this. More concerning is how powerful entities—corporations and special interest groups—can exploit this ambiguity to steer public discourse and influence government decisions. It could result in policies that push the interests of a privileged few while neglecting the well-being of the broader population.

Second, when policies lack clarity, citizens struggle to grasp the government's priorities and how they address their needs and concerns. This ambiguity can breed perceptions of incompetence, dishonesty, or even corruption, as people may suspect the government of dodging clear commitments to avoid accountability. In the worst cases, it can erode trust in the democratic process, leading to political disengagement and resistance to government policies.

Third, if India aspires to become a *Vishwaguru*, setting specific policy targets rather than vague ones is crucial. Clear targets allow the government to communicate its vision effectively, build credibility through measurable outcomes, and demonstrate real-world leadership. This approach is fundamental in setting global standards that other nations can aspire to. China and the US, often representing opposite ends of the ideological spectrum, have cemented their influence through clear, strategic goals. For India to assert its place in global leadership, it must do more than present itself as an ideologically distinct alternative. It must also commit to achieving tangible progress that the international community can objectively verify rather than resorting to vague targets that risk appearing as empty rhetoric.

Of course, there's still the question of whether setting specific targets is a sound political strategy. It's not—it's a double-edged sword. When governments set clear targets that resonate with the public and successfully achieve them, they can expect electoral rewards. But failure to meet those targets invites voter backlash. By keeping targets vague, governments can more easily deflect blame and justify policy when things don't go as planned.

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[i] Rankings derived using data from World Development Indicators Database (World Bank 2024).
[ii] The real GDP growth and employment data come from the World Development Indicators Database (World Bank 2024), which compiles cross-country data from various sources. For countries lacking 2019 employment rate data, I use the 2018 rate as a substitute.

[iii] The 5 percent threshold roughly corresponds to the top 20 percent of the global sample.