State Intervention and Labour Market in India: Issues and Options

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2005

STATE INTERVENTION AND LABOUR MARKET IN INDIA: ISSUES AND OPTIONS

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Abstract

State interventions into Labour policies in India are directed towards ensuring both job security and income security. In this paper we look at likely impact of such policies. The laws are found to serve the organised workers primarily while large masses of unorganised workers are without any security. To escape legislations, employers have substituted labour by capital, hired casual workers, and set up ancillary units. Consequently, output elasticity of employment has consistently declined and there is marked casualisation of workforce. Legislations have thus institutionalised and perpetuated labour market dualism. Reforms herein are necessary but should be implemented in a careful and phased manner to avoid deteriorating conditions in both the sectors in the name of uniformity. Linking retrenchment with Area Regeneration Programmes; upgrading employability quotient through training; allowing employers to transfer workers between units; providing easy credit and technical consultancy; and cooperative formation would help the workers.

JEL Code: E24, J21, J23, J30, J38, K31, I38

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I. INTRODUCTION

Interaction between State and Labour came into being as work became organised and some sort of regimentation of workforce started. Historically, laws and acts concerning labour originated to ensure regular and disciplined workforce to the modern sectors of production – mines, plantations and factories. This was done to ensure that wavering commitment of workers migrating from the traditional agricultural sector to these sectors does not create recurring shortages of labour and irregular production. As surplus rural workers came to perceive that the wages offered by these modern sectors were substantially higher than they were earning at home, transition of labourers became more permanent and regular. With abundant labour supply, the balance of power shifted towards the employers who now began to exploit the workers – by paying little, employing children and women who were paid even less, paying no attention to working or living conditions, operating 18 hour shifts, and offering no provision for leave of absence. This has been the experience worldwide – from the first industrial revolution in Britain to the newly industrialising economies of Asia and Africa. As a result, while the initial laws were pro-employer, laws in the later periods were pro-employee, enacted to prevent inhuman exploitation of the workers and offer them a dignified living. However, while the objectives of State intervention into matters related to Labour are justified and commendable, the effect of these interventions has not always been commensurate to their aims. In this paper we attempt to look at State policies towards Labour in India and the major impact of such policies on the labour market and the economy.

II. LABOUR POLICIES IN INDIA – AN OVERVIEW

There have been two basic tenets of labour policies in India related to the fields of (a) Employment security, and, (b) Minimum wages and other benefits. These laws have also moved through the same phases as discussed earlier.

1. Employment Security

The first piece of labour legislation, *The Workmen's Breach of Contract Act, 1859* was enacted to make any breach of contract by workers punishable by law as a crime. Though it was repealed in 1926 allowing trade unions to function, employment regulations till 1947 (e.g. *Trade Disputes Act, 1929; Rule 81-A of the Defence of India Rules, 1942*) aimed to secure uninterrupted production, not employment security. In addition, predominance of foreign owned enterprises meant that Indian workers were struggling against the colonial masters.

After independence, labour laws were enacted to eradicate labour exploitation and to shift the balance of power from the employers to the workers. The other objective was to enhance the welfare of the workers in general so that they can live with dignity. This was expected to spread prosperity to a larger mass of people in the long run. Employment security was provided through regulations and State interventions, and market forces were substituted by forcing employers to ensure certain minimum standards. In cases of the contractual conditions being lower than the legal minima, the legal conditions would supersede the contractual agreements. The plethora of labour related laws in Independent India started with the *Industrial Disputes Act, 1947* that succeeded the *Industrial Employment (Standing Orders) Act, 1946*. This Act puts in black and white the rights and obligations of employees and employers related to almost every aspect of organised employment. The earlier law provided for settlement of disputes regarding termination, through compulsory adjudication by appropriate authority in absence of mutually satisfying agreement between employer and employee. There were no restrictions on retrenchment until 1976 if an employer followed reverse chronological order, gave a month's notice or pay in lieu of notice, paid half a month's average pay for every year of continuous service or any part in excess of six months and informed the government. For retrenchment following closure, the requirement of sixty days' notice was introduced in 1972 but retrenchment remained the sole prerogative of the employer till 1976. Amendments to the Industrial Disputes Act in 1976 and 1982 placed severe restrictions on employers and required three months' notice & prior permission from 'appropriate government' for retrenchment or closure in industrial establishments employing 100 or more workers. While these provisions were disputed in court, in 1984 these were reintroduced through an Amendment to the Constitution. Certification of service rules under the Industrial Employment (Standing Orders) Act, 1946 has been another source of employment security. Along with these, *The Shops and Establishments Act, 1953* attempts to provide statutory obligation and rights to employees and employers in shops and establishments.

2. Wages and Benefits

State intervention in determining wages has also been quite substantial in India, and quite pervasive in the organised sector. The basic framework was set out in *The Report of the Committee on Fair Wages, 1948* following which the government designed fairly elaborate methods of intervention. For the organised sector, Tripartite Wage Boards were established to guarantee a decent minimum wage to the workers. For Central Public Sector Undertakings (CPSUs), there are periodic wage settlements by the Department of Public Enterprises and the state-level PSUs follows the Central PSUs. Rules related to indexation compensate workers for rising cost of living through Dearness Allowances. In addition, *Payment of Bonus Act, 1965* provides statutory bonus. Workers and employees have automatic annual increments to basic wages and in some establishments receive welfare benefits and other allowances. The government has also attempted to limit wage inequality through the *Indian Companies Act, 1956*. The main instrument for ensuring minimum wages in the unorganised sector is the *Minimum Wages Act, 1948*, under which minimum wages for an eight-hour work-day has been fixed for certain types of jobs where the market conditions expose the workers to exploitation.

To these were added *The Factories Act, 1948* ensuring adequate safety measures, health and welfare of the factory workers; *The Employees State Insurance Act, 1948* providing health cover, medical care and cash benefits for sickness, etc.; *The Employees Provident Funds and Misc. Provisions Act, 1952* making provisions for old age security or death benefits; *The Maternity Benefit Act, 1961* providing relief to women workers; *The Contract Labour (Regulation & Abolition) Act, 1970* stipulating 9 hours work for them between 6 A.M. and 7 P.M. only; *The Payment of Gratuity Act, 1972*; *The Equal Remuneration Act, 1976* ensuring equal remuneration to men and women workers for similar work; *The Inter-state Migrant Workmen (Regulation of Employment and Conditions of Service) Act, 1979*. Taken together, these legislations ensure a dignified work environment, a certain minimum remuneration, and aims to prevent discrimination and exploitation in the labour market.

Thus there have been a plethora of laws and acts in the post-independent India, mainly directed to protect the workers from the vagaries of employers. We have to look at what has been the practice under this maze of State interventions in the labour market.

III. IMPLEMENTATION OF LABOUR POLICIES – THE PRACTICE

While the labour laws have been commendable in their declared intentions to protect fundamental rights of workers, they are hardly implemented in any meaningful way for most workers in the country. Moreover, as the Second Labour Commission points out:

> "… our labour laws have not flowed from any vision of a harmonious and just social order that takes into account the needs of an efficient and non-exploitative society, or a vision of the rights, duties and responsibilities of the different social partners to

themselves, to each other, and to the totality of the community." (Report of Second National Commission for Labour, Chapter 1, page 12.)

They have been imposed from above and it has been presumed that it is solely the State's responsibility to protect the workers' interests. Consequently, development of labour market in India has been stifled and various institutions needed to ensure welfare of the workers have not come up. These laws are also alleged to be directed towards a meagre proportion of the working class in India – those in the organised sector. It is true that the laws were aimed mainly at the 'industrial' sector, but there were sufficient reasons for doing so in the early days of our planning. It had been assumed that a Lewis type economic transition will take place in India. If a large part of the workers were ultimately to be engaged in the modern sector, it was natural to ensure that a model working conditions and regulations were in place for this sector. However, such massive transformation did not take place and in 1999-2000, only 7 per cent of the workers were in the organised sector, and 2 per cent in the organised industries (Table 1). Assuming that all the laws for the organised sector are fully implemented (which they are not) the coverage of most of the pro-labour legislations are therefore very restricted.

Table 1
Employment (in millions) in the Organised and Unorganised Sector

	Total Employment		*Industrial Employment*		*Growth Rate of Total Employment*		*Growth Rate of Industrial Employment*	
	Organised	*Unorganised*	*Organised*	*Unorganised*	*Organised*	*Unorganised*	*Organised*	*Unorganised*
1983-84	24.03 (7.9)	278.93 (92.1)	6.96 (2.3)	27.24 (8.9)				
1987-88	25.71 (8.0)	293.88 (92.0)	7.15 (2.2)	30.05 (9.4)	1.75	1.34	0.68	2.58
1993-94	27.41 (7.3)	349.64 (92.7)	7.12 (1.9)	36.55 (9.7)	1.10	3.16	-0.07	3.61
1999-00	27.95 (7.0)	369.01 (93.0)	7.78 (1.9)	41.49 (10.4)	0.33	0.92	1.54	2.25

Note: Figures in parenthesis are percentages to total workers. Growth Rates are over previous time point.
Source: Monthly Abstract of Statistics, Govt. of India, CSO (Various Years)

The only recourse that the 'left-out' mass of workers in the unorganised sectors have is the *Minimum Wages Act, 1948*. But the practice in this regard too is poor. Minimum wage rates are revised very infrequently, in absence of indexation their real values erode in the intermediate years, and in some cases the revised rates are lower in real terms than the pre-revision rates. Significantly, in most cases, such statutory minimum wages have not been sufficient to enable a regular worker to remain above the official poverty line. Even then, enforcement has been poor and actual wages have mostly lagged behind statutory minimum wages. Only exception has been the agricultural sector where market wages have been higher than minimum wages and their long run growth have been quite substantial and uniform across the states. Since no perceptible difference in enforcement mechanism exists in this sector this can be attributed to substantial increase in agricultural productivity, and the organisation of agricultural workers (ILO-ARTEP, 1993).

The only area where labour laws – both regarding job security and adequate income have been implemented with some fervour in India has been that of organised industries and the public sector. Wages here have been 'fixed' to ensure certain living standards, revisions to wages have been fairly regular, full indexation have been used in the intermediate periods, annual increments have been systematic, and bonus and other welfare payments have been consistent. It is however peculiar, that the recommendations of Central Pay Commissions, specifically appointed to fix salaries of central government employees, usually serve as reference points for the Wage Boards and the DPE, and then for state PSUs and private enterprises as well. Therefore, it is virtually impossible to consider factors like productivity growth, skill formation, profitability, etc. while revising wages. Money wage growth is thus ensured over time. As a result, per employee emoluments in the industrial sector has increased consistently both in monetary and real terms (Table 2). The rate of wage increase has been faster in the public industries compared to the private industries, and even greater in public services and administration.

Table 2

Growth of Wages in the Registered Factories

	Average Annual Growth Rate over the Previous Period (%)		
Year	**Money Wages**	**Prices**	**Real Wages**
1970-1975	13.81	9.23	4.58
1975-1980	12.78	6.14	6.64
1980-1985	17.96	14.50	3.46
1985-1990	15.35	9.53	5.82
1990-1995	17.10	4.87	12.23
1995-2000	11.66	15.52	-3.86

Source: Annual Survey of Industries, CSO, Govt. of India (Various Years)

The prevalent labour policies have thus created and perpetuated *Dualism* in the Indian labour market. On one hand a small group of workers are immunised from retrenchment, obtain decent wages and other benefits, enjoy automatic annual increments and indexation, and for whom pay-revisions are regular and has no link with productivity. On the other hand, we have a large mass of workers who do not have any job security, whose wages have lagged behind statutory minimum wages and are not adequate to keep them above poverty line. These later group also do not enjoy any additional benefit in most cases, indexation of their wages are absent, revisions of the legislations for them are irregular and infrequent. While the former group enjoy both employment security and income security, lack of job security for the latter group prevent them from organising themselves and demand even decent income security. This inequality has initiated and propagated certain scheme of reactions in the economy to which we turn in the subsequent section.

IV. DUALISTIC LABOUR MARKET – IMPACT ON THE ECONOMY

There have been certain unwarranted outcomes of the labour policies practiced in India. These impacts have been different across different segments of the economy.

1. Public Sector

The labour policies related to job security and income enhancement are more rigorously followed in the public sector – both industrial and services. The State, in its bid to behave like a model employer, have always looked at the external economies of sustaining a well paid industrial and administrative workforce, and not at the costs and external diseconomies.

Table 3

Growth of Employment in the Public Sector

Year	**Employment** (in millions)		**Average Annual Growth Rate (%) over previous period**	
	Total	*Manufacturing*	*Total*	*Manufacturing*
1980-81	15.48	1.50		
1990-91	18.77	1.87	2.13	2.47
1999-00	19.31	1.53	0.31	-1.85

Source: Monthly Abstract of Statistics, Govt. of India, CSO (Various Years)

Since government jobs are best paid (ratio of public sector wage to private sector wage has varied between 1.25 to 1.75 over the 1970-2000 period, increasing consistently) and there are practically no efforts to even measure productivity, supply of labour to this sector has been infinite, and efficiency low. This has resulted in accumulation of surplus labour in the PSUs and the government services without proportional rise in output and income (estimated to be about 16 per cent of total workforce in 2001). Since these workers also enjoy substantial wage-increases periodically irrespective of profitability of the enterprises, the financial burden on the State in terms of wage payments and other benefits multiplied manifold over the years till they became unsustainable. Units became sick and fiscal prudence asked for closure of units and rationalisation of workforce. This has resulted in slackening growth of employment even in the Public sector in recent times (Table 3). On the other hand such a huge fiscal burden prevented the State to take up programmes which could have generated employment in the unorganised, especially the rural sector. A major cause of declining rural employment in the nineties has been attributed to declining public expenditure in the rural areas and dwindling infrastructure (Mukherjee, 2003).

2. Organised Private Sector

The labour policies have been applicable to the organised private sector as well, especially for the factories. However, as rational employers, they have faced the laws as restrictions imposed on their decision making process and have attempted to maximise their returns nevertheless. Firstly, rules regarding closure of enterprises entail substantial compensation for retrenchment. Secondly, temporary or casual labour is used cautiously as after a specified time of employment they would be deemed to be permanent and entitled to higher benefits. Thirdly, wage legislations have raised the cost of hiring workers – both current wages and present value of future benefits that are to be offered to the workers in cash and kind. Such wage legislations are also practically exogenous in nature – pay revisions for government employees take place at regular intervals; this leads to wage revisions in PSUs; there is a demand for wage revision in private sector as well and real wages are revised upwards. Thus the employers face a peculiar dilemma – once they hire someone they cannot fire her; the costs of retaining is substantial and ever increasing, having no link with productivity and profitability; the cost of retrenchment (if permitted) is exorbitantly high. All these push cost of labour far above the prevalent wage level and makes labour relatively dearer compared to capital, or at least the relative price of labour compared to capital goes on increasing.

Table 4

Terms of Trade between Capital and Labour and Capital-Labour Ratio in Registered Factories

Year	**Terms of Trade**		**Capital-Labour Ratio**	
	Level	***Index***	***Level***	***Index***
1980-81	0.90	100	0.37	100
1985-86	1.34	148	0.63	170
1990-91	1.04	116	0.81	219
1995-96	1.30	145	1.19	320
2000-01	1.37	152	1.44	387

Note: Terms of Trade between Capital and Labour is calculated as the ratio between Emolument per Worker and Interest per unit of Outstanding Loan; Capital-Labour Ratio is measured as Fixed Capital per Employee in Rs. Lakh in constant 1980-81 prices.

Source: Annual Survey of Industries, CSO, Govt. of India (Various Years)

This has surely happened in India where, in the registered factories, labour cost (measured by per employee emoluments and benefits) relative to capital cost (measured by interest payment per unit of borrowed capital) has been increasing throughout (Table 4). Such rise has also been faster than the rise in profitability (measured by profit per unit of invested capital) (Table 5). That productivity (measured by Gross Value Added per employee) has increased faster than emoluments is of little consolation as this has followed substitution of labour by capital by employers in response to exogenous changes in wages to enhance labour productivity. This is corroborated from Table 4 where we find that capital-labour ratio has almost quadrupled during 1980-2000. Such steps, however, adversely affect the prospects of

Table 5

Movements of Factor Returns in Registered Factories (Base 1980-81 = 100)

Year	GVA per Employee	Emolument per Employee	Profit per unit Invested Capital	Interest per unit Outstanding Loan
1980-81	100	100	100	100
1985-86	169	155	103	104
1990-91	218	174	126	150
1995-96	323	222	194	153
2000-01	373	261	135	172

Source: Annual Survey of Industries, CSO, Govt. of India (Various Years)

employment increase in the medium to long run. In the initial years any rise in costs due to rise in wages (and other factors too) were tacitly passed on to the consumers. In a closed economy framework this suited the employers, the employees and the State. But in the new global economy framework, such mechanisms are suicidal. Domestic enterprises have to compete with MNCs both for international and domestic markets and so price and cost competitiveness is of utmost importance to employers. This has prompted them to search for escape routes, especially since mid 1980s when the *Industrial Disputes Act* with new restrictions was put into place and soft liberalisation took away the protective shield from domestic industry. One of them, the substitution of labour by capital, has already been mentioned. Other avenues taken up by innovative entrepreneurs include entering into ‘contracts for services’ with individuals, middlemen and agencies for labour supply; engaging workers for specific time-determined piece-meal contracts; inducing workers to form cooperatives and submit bills for work done instead of drawing wages; classifying workers as apprentices or trainees and specifying that employment is not offered; changing record of names several times a year; hiring casual workers; designating workers as consultants who submit periodical bills; etc. Another method taken up by employers has been to set up number of independent small units instead of one large unit. Though this method prevents realization of economies of scale, the resultant losses are outweighed by the combined advantages of labour flexibility and the saving on labour costs.

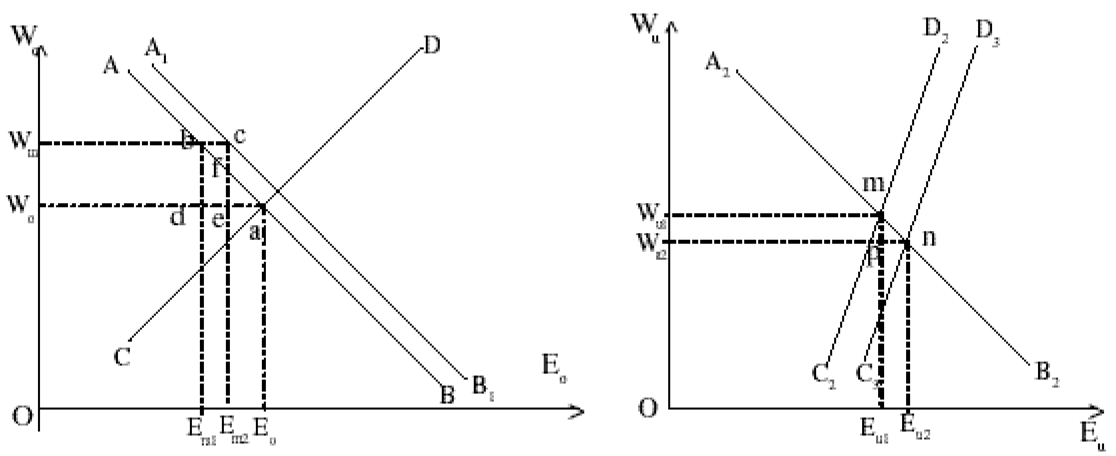
3. Unorganised sector

The fallout of the slackening employment growth in the public sector and the private organised sector is a tremendous growth of employment in the unorganised sector in India, growth rates in the latter being almost three times that of the former during the 1987-93 and 1993-99 periods (Table 1). As a result, while its share in total employment had been above 90 per cent even in 1983-84, it has been increasing throughout the last two decades, except a marginal fall during 1983-87. For the industrial sector, the share has been increasing since 1983-84 itself. This is quite natural as the employers seeking escape from the laws pertaining to the organised sector are increasingly resorting to ancillarisation and sub-contracting. In addition, workers not finding entry into the organised sector are resorting to self-employment and setting up small units as means of livelihood. While a part of the unorganised sector are growing in tandem with the organised sector through the linkages of sub-contracting and supplying of semi-finished inputs, a major part of them are distress units. It is observed that at least for the unorganised manufacturing sector (UMS) such a dual force is clearly operative with the comparatively larger units (the DMEs) growing along with the factories in the urban areas and along with agricultural development in the rural areas.[1] On the other hand, the smaller units (OAMES and NDMEs) are growing in spaces of relative economic hardship (slackening growth of factories and agricultural sector, high poverty, low per capita income, etc.). However, as the DMEs are lesser in number and worker base (in 2000, DMEs constitute only 4 per cent of the units and 17 per cent of the workers in UMS), and their characteristics are more like the organised sector, it would be justified to infer that much of the 37 million workers in UMS are in distress and have taken up the profession to fend away complete unemployment. It is also to be noted that a major part of these workers are unpaid household workers (in 2000, more than 75 per cent of workers in UMS were household labour) and the share of part time workers in this sector have increased from 10 per cent in 1989-90 to over 18 per cent in 1999-2000. For the hired workers, the story has not been very different. Emoluments per hired worker in the UMS in real terms (1989-90 prices) have increased from Rs. 3029 in 1989-90 to Rs. 4193 in 1999-2000, averaging a growth of around 3.6 per cent p.a. Compared to about 7.3 per cent p.a. rise in per employee emoluments in the factory sector over the same period, it is quite clear that the workers in the unorganised sector are getting a raw deal. On one hand, they are practically not covered by any job-security legislation. On the other, the only legislation that they can resort to, that of income security, is not effective.

V. EFFECT ON EMPLOYMENT – A COMPREHENSIVE VIEW

It is thus evident that stringent labour laws have provided strong incentives to present and prospective employers, especially those in the organised sector, to minimise hiring of regular workers. The public sector has already passed the threshold limit of its carrying capacity as far as providing jobs is concerned and is desperately trying to shed flab through various early separation schemes. This has had serious impact on employment growth in the economy and also on the nature and quality of jobs that are available.

Figure 1



Panel A   Panel B

1. An Analytical Model

Analytically, the dual labour market policies are expected to trigger off the following mechanism in the labour market.[2] As evident, there are two segments of the labour market – the Organised sector where workers are protected (both in terms of secure jobs and adequate income), and the Unorganised sector where there are practically no coverage. Let the two markets be represented in Panel A and Panel B respectively of Figure 1. AB and CD are the labour demand and labour supply curves in the organised sector. Market clearing wage rate is W_o and employment is OE_o. However, due to various legislations and pro-worker policies, the effective minimum wage rate is W_{m1}. It is quite natural that in a labour surplus developing economy W_m has to be substantially higher than W_o. The gap W_oW_{m1} is the premium enjoyed by workers in the organised sector. Facing this wage rate, employers employ only OE_{m1} amount of labour. There is thus loss of employment of the magnitude E_oE_{m1}, which we may call notional displaced workers due to labour legislations. Output also reduces by E_oabE_{m1} amount. If we consider the unorganised sector as the balancing sector where all those seeking but not finding jobs in the organised sector are absorbed, then the labour supply curve would be almost vertical, as depicted by C_2D_2 in Panel B. In absence of any protection, wage rate in this sector is determined by market forces. Expectedly, this wage W_{u1} would be lower than W_o. After implementation of legislations in the organised sector, the notionally displaced workers enter the unorganised labour market, expanding labour supply to C_3D_3. As a result, employment in the unorganised sector increases from OE_{u1} to OE_{u2} but wages decrease to W_{u2}.

Thus employment increases by $E_{u1}E_{u2}$ and output increases by $E_{u1}mnE_{u2}$. The incremental employment and output are however lower than the loss in employment and output in the organised sector as $E_oE_{m1} > E_{u1}E_{u2}$, and $W_m > W_o > W_{u1} > W_{u2}$. The result is therefore a net loss in employment and output, and a further decline in the already low wages in the unorganised sector leading to inequality. Empirical evidence in the Indian context tends to support this mechanism. Sometimes, employers react to the increase in wages and decline in output by upgrading technology. This leads to improvement in value of marginal productivity of labour and rise in labour demand to A_1B_1. This reduces the impact of declining employment and output to some extent, but the adverse impact on wages in the unorganised sector would still remain. Let us now see what has actually happened in India in recent times. While the phenomenon of low and depressing wages in the unorganised sector has already been mentioned, let us examine the effect on employment scenario.

2. Employment Growth

The absolute level of employment growth has decelerated in recent times, especially in the post-1990 period. Both Usual and Current status employment rates have decreased during 1993-99 leading to a rise in open unemployment rates (Table 6). The only exception to this broad trend is the urban female group, where the employment rates have increased in the post-reform period. However, this is not a sign of enthusiasm as it is observed to be caused by a decline in usual employment and a more than proportional decline in size of workforce. It is generally accepted that when work is not available even after a long wait, a substantial proportion of females withdraw themselves from the labour force rather than report as unemployed. The post reform increase in current employment rate for urban female is due to an increase in workforce along with a more than proportional increase in employment. The virtue of this phenomenon too has been questioned on grounds of increased availability and employment of females in irregular and low paid jobs especially in the service sector.

Table 6

Work Participation, Employment and Unemployment Trends in India

	Usual Employment Rates							*Usual Unemployment Rates*						
	Number of persons employed/unemployed per 1000 workforce													
	Rural			*Urban*			*Total*	*Rural*			*Urban*			*Total*
	M	*F*	*T*	*M*	*F*	*T*		*M*	*F*	*T*	*M*	*F*	*T*	
1983	97.9	98.6	98.1	94.1	93.2	93.9	97.3	2.1	1.4	1.9	5.9	6.9	6.1	2.7
1987	98.2	97.6	98.0	94.8	93.8	94.6	97.2	1.8	2.4	2.0	5.2	6.2	5.4	2.8
1993	98.6	99.4	98.9	95.9	93.9	95.6	98.1	1.4	0.6	1.1	4.1	6.1	4.4	1.9
1999	98.3	99.0	98.6	95.6	94.6	95.2	97.8	1.7	1.0	1.5	4.5	5.7	4.7	2.3

	Current Daily Employment Rates							*Current Daily Unemployment Rates*						
	Number of persons employed/unemployed per 1000 workforce													
	Rural			*Urban*			*Total*	*Rural*			*Urban*			*Total*
	M	*F*	*T*	*M*	*F*	*T*		*M*	*F*	*T*	*M*	*F*	*T*	
1983	92.5	90.8	92.0	90.8	89.8	90.6	91.7	7.5	9.0	7.9	9.2	10.5	9.4	8.3
1987	95.4	93.2	94.8	91.2	88.0	90.6	93.8	4.6	6.7	5.2	8.8	12.0	9.4	6.2
1993	96.8	96.6	96.9	93.2	89.4	92.4	95.7	3.2	3.4	3.1	6.8	10.6	7.6	4.3
1999	92.8	92.7	93.0	92.8	90.2	92.2	92.8	7.2	7.0	7.1	7.3	9.4	7.7	7.3

Source: Author's Calculations based on NSSO (1983, 1990, 1992, 1994, 2001).

Such deteriorating employment scenario is the main outcome of the sluggishness of employers to take in more labour. This phenomenon of *jobless growth* will be more evident if we look at the elasticity of employment with respect to output in the economy (Table 7). In all the major sectors of the economy this elasticity has consistently declined, with negative elasticity experienced in the Mining and Electricity-Gas-Water Supply sectors during 1993-99 period. If we consider the 2001-02 thin sample survey of NSSO, then the elasticities are negative in the Primary and Tertiary sectors during 1999-2001 period. Though too much should not be read from thin samples, yet the unsatisfactory performance of the services sector, hailed as the engine of employment creation in the new era, invites serious concern and asks for deeper exploration. At the sub-national level, such decline in elasticity levels are evident in all the major states except Delhi, Gujarat, Kerala, Madhya Pradesh, and Punjab.

Table 7

Elasticity of Employment with respect to Output Growth by Sectors

Sector	**1983-87**	**1987-93**	**1993-99**
Agriculture	0.20	0.34	0.14
Mining & Quarrying	1.17	0.43	-0.44
Manufacturing	0.31	0.30	0.16
Elec, Gas & Water	0.60	0.31	-0.10
Construction	-0.61	2.39	0.96
Services	0.87	0.39	0.23
Total	0.35	0.33	0.18

Source: Same as Table 6, and Estimates of State Domestic Product, Govt. of India, CSO

3. Quality of Work

The impact has not been restricted to loss of jobs only. Even the jobs that have escaped the axe have become less regular and less secure. There is a marked trend towards casualisation of the workforce both at the usual principal and the usual principal and subsidiary status (Table 8). Proportion of casual workers among all workers have increased in all segments during 1979-99 period except for urban females in 1993-99. That this may have been caused by withdrawal of females from the workforce has already been indicated.

Table 8
Distribution of Usually Employed by Category of Employment

Sector	Year	Usual Principal Status			Usual Principal & Subsidiary Status		
		Per 1000 Workers			*Per 1000 Workers*		
		Self Employed	*Regular Employee*	*Casual Employee*	*Self Employed*	*Regular Employee*	*Casual Employee*
Rural Male	**1978-1979**	622	108	270	628	106	266
	1983-1984	595	106	299	605	103	292
	1987-1988	575	104	321	586	100	314
	1993-1994	569	85	346	579	83	338
	1999-2000	544	90	366	550	88	362
Rural Female	**1978-1979**	563	37	400	621	28	351
	1983-1984	541	37	422	619	28	353
	1987-1988	549	49	402	608	37	355
	1993-1994	513	34	453	585	28	387
	1999-2000	500	39	461	573	31	396
Urban Male	**1978-1979**	399	472	189	404	464	132
	1983-1984	402	445	153	409	437	154
	1987-1988	410	444	146	417	437	146
	1993-1994	411	427	162	417	421	162
	1999-2000	412	419	169	415	417	168
Urban Female	**1978-1979**	422	308	270	495	249	256
	1983-1984	373	318	309	458	258	284
	1987-1988	393	342	265	471	275	254
	1993-1994	364	355	281	454	286	258
	1999-2000	384	385	231	453	333	214

Source: NSSO (2001)

Apart from casualisation of usual workers, lack of regular employment (Underemployment or Semi-open unemployment - SOU) itself has to be highlighted.[3] The difference between Current Daily Status Unemployment and Usual Status Unemployment would give us a measure of underemployment or SOU – people who are usually employed but not currently employed. It is observed that the nineties have witnessed rising magnitude of SOU after a consistent decline of it in the earlier decade (Table 9). SOU is more severe for the female workers, the proportion being almost 4-5 times of the corresponding male figures in both rural and urban areas.

Thus, in the face of stringent labour laws, wage-gap between the organised and unorganised sector has been increasing, while the share of organised sector itself is decreasing. In addition, both open unemployment and underemployment are increasing, widening further the gap between the small mass of protected labour and the remaining millions of vulnerable workers and job-seekers. Decreasing elasticities of employment also paint a pessimistic picture of the labour market in the medium run. How to face this situation is studied in the next section.

VI. ISSUES AND OPTIONS

The objectives of State intervention in labour market have not been fulfilled in India. It has often been argued that such interventions have achieved *'employment at the cost of employability'*. Legislations based on job type and working conditions criteria have institutionalised, propagated, consolidated and perpetuated dualism in the labour market. The assumption that slowly more and more workers will enter the formal sector where the model legislations are operative has not come true. On the contrary, employment have increased in the form of *informal* jobs where employers are not encumbered by rules related to security of jobs and minimum wages and therefore can exploit the workers. The very intention of providing protection to the working class has created a small enclave of 'protected' labourers leaving out the teeming millions to fend for themselves in the *market*. This has gone against our proclaimed principle of social equity leading to persistence poverty and economic inequality. To meaningfully provide solutions to this peculiar paradox, we must summarise the issues and options before us carefully.

Table 9

Underemployment Trends in India

Number of persons per 1000 workforce

	Rural			*Urban*			*Total*
	M	*F*	*T*	*M*	*F*	*T*	
1983	11.6	41.2	22.6	7.2	27.8	11.5	20.4
1987	8.7	44.1	21.6	6.8	32.6	12.3	19.6
1993	6.4	31.5	15.4	4.6	22.4	8.3	13.6
1999	9.8	31.6	17.3	5.2	19.0	7.9	15.0

Source: Same as Table 6

It is argued that in light of our experience and in the context of globalisation, labour market reforms are necessary for stimulating long-term growth of output and employment in the Indian economy. The attack has mainly been focused against the regulations restricting retrenchment and closure i.e. those that impede employment flexibility. While it is true that restrictions to flexibility have prevented unemployment during downturns, it has also dampened employers' incentive to expand employment during upswings. These regulations have obstructed expansion of flourishing sectors, prevented restructuring of dying sectors, and hence constrained growth in both output and employment. Also, high actual labour costs act as a restraint to foreign investment and confines it to capital-intensive sectors. In the face of growing external competition, the clamour for restructuring has gained momentum. It is argued that if introduced, the right to hire and fire will enable employers to compete with MNCs enjoying flexible conditions and help them to actually prosper, lifting employment figures upwards.

However, this proposition cannot be welcomed without blinking. Employment flexibility can be introduced only when appropriate labour market institutions are in place. Hiring and firing itself leads to substantial social and personal loss unless retrenched workers are able to find suitable jobs. This requires upgradation of their employability quotient through training and rehabilitation programmes. This calls for sufficient labour market information available to the workers, training centres imparting useful and *in-demand* skills, and providing means of sustenance in the intermediate period between jobs. In absence of such provisions, taking away job security from the workers will only create a sense of despair and despondency among them. Our experience with labour redundancy in the public sector and National Renewal Fund (NRF) seems to corroborate this thinking. Only the Voluntary Retirement Scheme (VRS) programme under the NRF has made any progress while those related to counselling, retraining and redeployment hardly has advanced anywhere. Most of the workers who have taken VR have deposited their capital in Post Offices and Banks and are living on interest income. Though some workers, mostly from managerial cadre, have gone into the private sector, very few workers have taken up new assignments. Even if they were to enter the job market, they would most probably have gone into the unorganised sector, worsening the conditions of those already employed therein. One way out of this mess can be linking of retrenchment and closure permissions with the 'Area Regeneration Programmes'. Entrepreneurs desirous of winding up an unit would be permitted only if the capital released is used for setting up of unit(s) of similar employment potential in the same area – albeit of a *sunrise* sector. This will enable employers to restructure without job loss. Workers would have to be paid Allowances in the intermediate period and retrained to be employable in the new venture. A major part of this cost would have to be borne by the State no doubt. Another way to prevent labour being relatively dearer would be to link wages with productivity and severe the link between pay rise in government administrative sector and those in production sectors.

One may argue that what happens to this protected minuscule part of our workforce is of little importance. That however is not the situation. Giving carte blanche to formal employers to retrench and close down will have its impact on the unorganised sector too. Once job security in the organised sector is withdrawn, vulnerability of workers in that sector would increase. They would no longer be able to organise themselves and collectively bargain for preservation of their income security. Once that happens, demonstration effect will create immense pressure on unorganised workers and make their task of being organised and press for better working conditions more difficult.

In this light the recommendations put forward by the Second Labour Commission has to be evaluated. It seems that the commission has proposed a relaxation of retrenchment and closure restrictions along with linking of wages with productivity for the organised sector. On the other hand, a host of social security and minimum wage policies have been proposed for the unorganised sector. While the intentions of the commission are commendable, there are certain issues that need to be sorted out. It is not the fact that there have been no income security or pro-worker legislation covering the unorganised sector. The problem is that the sheer size of the sector has made implementation a monumental task. A major part of the sector is hidden through unpaid and unaccounted household labour and being unorganised they lack political clout to form pressure groups for execution of relevant laws. Even with all the good intentions such an umbrella protection will need huge fiscal commitment from the State, which is hard to materialise under present economic dispensation. Therefore, passing laws to protect unorganised workers will hardly work and only the easier recommendations like relaxation of rules for the organised sector will get implemented in the immediate run. This will be much like putting the cart before the horse and will create further distortions in the labour market. While balancing the two segments and breaking the dualistic character is important, one should be careful to avoid deteriorating conditions in both the sectors in the name of uniformity.

Under such situation one may consider few other options as well. While in principle flexibility in the labour market is welcome, they should be implemented in a careful and phased manner. Apart from linking closure with regeneration as already mentioned, one may also look at possibilities of allowing employers to transfer workers between units and departments, even across regional and national boundaries. This will make the employers responsible for skill upgradation of the workers and allow them to pursue flexible specialisation too.[4] Such restricted flexibility in the short run will have to be followed by adequate institution building in the medium run. However, such institutions are to be built up not through State legislations solely. A major reason of the present disorder is that the present legislations have been imposed from above and not followed through labour organisations and labour struggles. So, the policies and legislations should emerge from consultations among, discussions with, and active participation of the workers themselves. The relatively better position of agricultural workers, especially in West Bengal and Kerala, bear testimony to the necessity of organising the unorganised workers before passing laws for them. Efforts made in this direction by VV Giri National Labour Institute in Madhya Pradesh, Rajasthan, Tamil Nadu, and Uttar Pradesh have also borne fruits (NLI, 2000). Institutions that require State sponsorship and guidance are those that would impart retraining and assistance in job search. The institutions conceived under the NRF are Employee Resource Centres, Employee Assistance Centres, and Area Regeneration Councils. These should not be restricted to retrenched workers only, but should be extended to all workers presently positioned or intending to join unorganised sector. Also, the programmes must be directed more towards self-employment rather than wage employment. Additional support to these workers in form of smooth and cheap credit, scientific and technical consultancy, incentive to form cooperatives, preference in purchase of materials would also go a long way in improving the conditions of unorganised workers. Ideal situation would see an integrated network of institutions, managed jointly by the government, trade unions and employers' organizations functioning in a mutually interactive and supportive manner. In addition, it must be noted that investment, employment creation and growth are significantly affected by infrastructural availability, credit flow, and human resource embedded in the workers, along with labour costs. Improving the endowment of those other factors would also help in creating a more job-friendly environment. The State should understand that reforming labour legislations in a piecemeal manner would only deteriorate the already vulnerable position of workers countrywide.

Notes

[1] This has been explored extensively by Mukherjee (2004).

[2] This has been adopted from Brown et al (1982)

[3] The concept was first discussed loosely by Joan Robinson (1960), and then by Gautam Mathur (1999). Pioneering work in these two issues was by Mathur (1999) who concentrated at the national level. Mukherjee (2003) has explored these issues in detail.

[4] Such delinking of job permanency from income security has also been advocated by ILO-ARTEP (1993).

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