CHAPTER 5

# Labor Markets in India: Issues and Perspectives

T.C.A. ANANT, R. HASAN, P. MOHAPATRA, R. NAGARAJ, AND S.K. SASIKUMAR

## 5.1 Introduction

Market-oriented structural reforms in India, begun in the 1980s and intensified in the 1990s, are widely believed to have put the economy on a path of higher growth. But there are concerns that outcomes in labor markets have not improved for large segments of the labor force. Many observers of India's labor markets are bothered by the slow growth of employment in the organized sector—where the "good" jobs are. Despite growth of around 5% in GDP per capita between 1993/94 and 1999/2000, the share of the organized sector in total employment decreased from 7.3% to 7.1%.[1] At the same time, jobs in the organized sector have themselves been undergoing a change, with contract labor getting a growing share of employment. More broadly, workers on daily or periodic contracts have increased their share of total wage and salary employment, in what some observers have described as the "casualization" of the Indian workforce.

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T. C. A. Anant, Department of Economics, University of Delhi, India; R. Hasan, Economics and Research Department, Asian Development Bank; P. Mohapatra, Department of History, University of Delhi, India; R. Nagaraj, Indira Gandhi Institute of Development Research, Mumbai, India; S. K. Sasikumar, V.V. Giri National Labour Institute, India. The authors thank participants at the workshop, *Labor Markets, Employment Growth, and Social Protection in India* (New Delhi; 7 October 2005), for their comments and suggestions on an earlier draft of the paper. They also thank Jesus Felipe for useful discussions on labor market issues which were instrumental in initiating this paper. The views expressed in the paper are the authors' and do not necessarily represent the views and policies of their institutions.

Concerns are also being raised about the continued lack of better economic opportunities for those in the informal sector and the slow pace of poverty reduction. For example, while the estimated hourly wages at the 90th percentile of the urban wage distribution were almost 7.6 times as high as those at the 10th percentile in 1983, this differential had increased to 9.5 by 1999/2000.[2] And although poverty rates have fallen over the last 20 years, the decline has been less than in a number of East and Southeast Asian economies during their periods of high growth.[3]

The results of the 2004 elections in India suggest that such trends can have serious political consequences as well. The labor market is a key instrument in ensuring that the larger population shares in the benefits of growth. How well the labor market discharges that responsibility is therefore a question of critical importance. This chapter takes stock of what is known about Indian labor markets, to understand how they work, especially given the growing market orientation of the economy. Such a stocktaking can bring out policy reforms to help ensure that, as the economy grows, reasonably well-paying and productive jobs also multiply rapidly and those who are less well-off thrive.

The rest of this chapter is organized as follows. Section 5.2 briefly reviews economic policies in India since independence and Section 5.3 looks at labor market outcomes. Section 5.4 gives a detailed account of India's labor laws and their enforcement, particularly those laws at the heart of the ongoing debate on labor market rigidities. India's labor laws, some say, are a major cause of the slow growth of organized sector jobs, especially in industry, and the growing casualization of employment. Section 5.4 also reviews the evidence that has been brought to bear on this issue. It ends with a discussion of the recommendations of the Second National Commission on Labour (Ministry of Labour 2002).

Section 5.4 argues that weak enforcement of labor laws, especially since the 1990s, has given Indian firms more de facto flexibility than a reading of Indian labor laws might suggest. This is not to suggest that India's labor laws are not in need of reform. Particular features of India's labor laws, such as stringent restrictions on layoffs do go against the grain of an economic environment where markets are increasingly relied on to allocate resources. However, modifying such laws should not be the only objective of labor market reforms in India. In the plethora of central and state government laws on labor issues, the overlaps and contradictions run counter to good governance and the welfare of workers. These laws must be rationalized.

Labor reforms must also take into account the fact that the overwhelming majority of India's workers are in the unorganized sector, where the protection of their basic labor rights is at best weak. Perhaps most critically, reforms of labor laws must be accompanied by reforms of social protection institutions and mechanisms available to workers. Section 5.5 discusses not only India's social protection system but also points out the various challenges that must be met to strengthen social protection.

Section 5.6 goes on to discuss issues related to skills and training in India. There is a severe mismatch between the supply and demand of skills. Moreover, while India's recent success in IT services has spurred many institutions to provide technical training, and has led many students to join these institutions, the quality of the education and training in these institutions is cause for concern.

Section 5.7 contains closing remarks and offers directions for future research.

## 5.2 Indian Economic Policy and Economic Reforms[4]

### 5.2.1 1950–1965

India gained political independence in 1947 and launched a process of planned economic development in 1951/52. The economic goals of the new state had their origin in the philoso-phy of the Indian National Congress (INC) during the independence movement. The INC resolved to adopt a socialistic pattern of development in its annual session in Karachi in 1931 and made the same pledge in its 1955 "Avadi" session. And so in 1956 India set forth on the path to self-sustaining growth through increased domestic saving and investment. Following Mahalanobis, an architect of India's planning and statistical systems, emphasis in investment shifted to heavy industrialization aimed at rapid import substitution, with the public sector filling the role of "strategic entrepreneur" in a predominantly market economy. The plans were premised on the following:[5]

1. **Export pessimism.** It was believed that demand for Indian exports would not grow fast enough to be a major source of growth.
2. **Savings pessimism.** It was believed that private savings would not be enough to finance capital accumulation and would need to be supplemented by public resource mobilization.
3. **Investment pessimism.** The private sector was considered unable or unwilling to come up with large investments in key basic industries. This provided the economic rationale for public sector involvement.
4. **Elastic supply of food grains** in response to growing demand from the modern, industry sector (Chakravarty 1987).

These assumptions were combined with:

1. **Distrust of multinational enterprises.** There was concern that the state could not adequately control these enterprises and that they would

undermine its power. This, in combination with the Gandhian distrust of modern technology, led to a limited role for foreign direct investment (FDI) and technology transfer into India.

2. **Distrust of large private industrialists.** Like the foreign companies, domestic industrial houses were held in distrust, perhaps not as much by the political class as by the bureaucratic and intellectual community.
3. **Distrust of the market.** Both on account of an aversion to "free market" concepts as part of the rhetoric of the struggle for freedom, and because of the relatively fragmented and primitive nature of most major markets in the country, there was a profound distrust of the use of market mechanisms to attain policy goals.[6]

This structure of assumptions was not inconsistent with the state of economic knowledge at the time. But what was interesting and distinct about the Indian experience was its persistence. This first phase of development saw the economy develop at a rapid rate. However, this was not to last.

### 5.2.2 1965–1980

For the Indian economy, 1965 to 1980 was a period of many exogenous (economic as well as noneconomic) shocks. The period was marked by two successive crop failures (in 1965/66 and 1966/67), two wars with Pakistan (in 1965 and 1971), and the oil price shock of 1973. Industry was in "relative stagnation"—manufacturing sector growth decelerated to about 4.5% per year from 7-8% per year registered during the first 15 year period of planned economic development (1950-1965). But a "wheat revolution" during this time enabled the economy to survive the food crisis. Soon, the focus of import substitution shifted from machinery manufacturing to fertilizer production and commercial energy sources to ease the effects of the external shocks. As the growth in domestic absorption was relatively low, export growth showed a modest improvement, with manufactures increasing their share. However, these achievements were unexceptional relative to the growth in world trade, and the export performance of many East Asian economies. The period saw the coming to power of Indira Gandhi, who tightened regulation and reduced freedom in the business sector.[7] Many of the production and related industries were nationalized.[8] The period was also one of political uncertainty and upheaval. The Congress party split in 1969, and from 1973 there was a rapid rise in urban unrest. A conflict arose between the government and judiciary over the right to property. All these trends culminated in the brief experiment with authoritarianism, starting with the declaration of a state of emergency in 1975. The last few years of the period saw the return to democracy and the passage of the 44th amendment to the constitution, which ended the long standoff with the courts over the right to property.

### 5.2.3 1981–1991

Toward the end of the 1970s, India's domestic saving rate rose to nearly one fifth of GDP, with surplus food stocks and a comfortable level of foreign exchange—easing the two long-term binding constraints on the country's industrialization effort. But industrial growth remained sluggish. The 1980s witnessed the start of trade liberalization (a shift from quotas to tariffs), a revival of public investment in energy and infrastructure, and a slow but steady deregulation of investment and output controls. In response to these policy changes, along with a significant improvement in agriculture growth, industrial growth in the 1980s regained the lost momentum of the first 15 years of planned economic development (Nagaraj 1989). The GDP growth rate in this decade accelerated to about 5.5% per year, with manufacturing as the leading sector, growing at about 8% per year (Nagaraj 1990, Ahluwalia 1992). The gradual reforms of the 1980s, however, were confronted with a serious balance-of-payments crisis in 1990.

### 5.2.4 Economic Reforms of 1991

Faced with a balance-of-payments crisis, the new minority government that took office in mid-1991 launched a major stabilization and structural adjustment program. Whether the crisis was caused by the unsustainable policies of the 1980s or was merely a short-term liquidity problem created by external and political factors is keenly debated. Similarly, whether the reforms of 1991 represented a sharp break from the dirigiste regime of the past four decades or were merely a continuation of the "creeping liberalization" begun in the 1980s is a moot point (Nagaraj 1997).

However, there is a reasonable consensus that the reforms were an internally consistent set of policies that, on the face of it, sought to break in a significant way from the past. Although the pace of reforms was comparatively modest, it seemed very fast by Indian standards.

In response to the crisis in mid-1991, the following measures were initiated:

1. **Currency devaluation.** In July 1991, the Indian rupee was devalued by about 18% against the US dollar. Cash incentives for exports were also withdrawn.
2. **Fiscal correction.** Central government spending was cut to reduce the fiscal deficit from 8.4% to 6% of GDP in 1991/92.
3. **Increase in interest rate.** The State Bank of India's advance rate was hiked from 16.5% to 19% in 1991/92.

4. **Structural reforms.** These consisted mainly of trade and industrial policy reforms: replacing import licensing with tradable import permits and rapidly reducing tariff rates, especially on capital goods; eliminating licensing requirements for new entry and expanding manufacturing capacity; drastically pruning industries reserved for the public sector; and reducing entry barriers for inward FDI.
5. **Mobilization of exceptional financing.** The International Monetary Fund (IMF) provided standby credit of $2.3 billion over 20 months.

As the economy turned around in about 18 months with an improvement in the balance of payments and a reduction in domestic inflation, the program of structural reforms was strengthened. In his letter to the World Bank seeking a structural adjustment loan, the then finance minister Manmohan Singh outlined the following reform measures:

1. Convertibility of Indian currency on the current account.
2. Tax reform: introduction of value-added tax (VAT), reduction in average tariff rates and reduction of their dispersion.
3. Disinvestment in public sector enterprises and conclusion of a memorandum of understanding with the enterprises providing for improvements in their performance and a reduction in budgetary support for them.[9]
4. Reduction in the role of public investment.
5. Trade and industrial policy reform: abolition of investment and output controls, pruning of industries reserved for the public sector, abolition of the Monopolies and Restrictive Trade Practices Commission, fiscal incentives for investment in industrially backward areas.
6. Abolition of controls on FDI: authorization of portfolio investments, provision of access to international capital markets for large Indian companies.
7. Stock market reform: abolition of Controller of Capital issues, relaxation of norms for company listing in stock markets, authorization of investments in Indian stocks by nonresident Indians, development of modern institutions for the stock market and the regulatory agency.
8. Financial sector reform: liberalization of interest rates, entry of private sector banks, dilution of directed credit, development of market for government securities. greater independence for the central bank, constitution of banking regulatory authorities.
9. Creation of the National Renewal Fund for voluntary retirement in public sector enterprises, legitimizing layoffs and retrenchments in the organized private sector. Otherwise, despite vocal support for changes in labor laws, the lack of a consensus held back the necessary legislative changes.

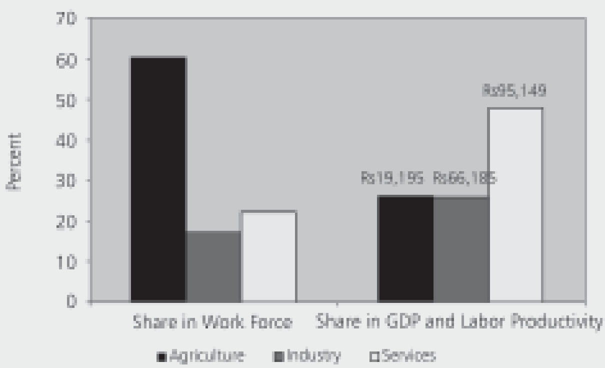
The long list of reforms mostly pertained to trade and foreign investment. Over the last decade many of these reforms have been implemented, although perhaps not to the precise extent that was originally intended. While the overall effects of these policies on the external sector have been quite favorable, resulting in a balance-of-payments surplus, their effectiveness in improving employment and standards of living across socioeconomic groups has been less obvious.

## 5.3 The Labor Market in India: Structure and Key Features

India's labor force is enormous. Its size has been estimated at 406 million in 1999/2000, the most recent year for which "large-sample" survey data on labor force and employment are available.[10, 11] The vast majority of this labor force—around 78%—lives in the rural areas. The remaining 22% resides in urban areas.

Since a majority of the labor force is rural, agriculture is still the single most important sector of employment in India. Indeed, as the first set of bars in Figure 5.1 show, 60% of total employment in India is in the agriculture sector. Industry accounts for 18%, and services account for 22% of total employment. The single most striking feature of labor market outcomes in India is the extremely low productivity of agriculture, as can be seen from the second set of bars in Figure 5.1. The bars illustrate not only the shares of the three major sectors in GDP, but also average labor productivity (sectoral value added divided by sectoral employment).

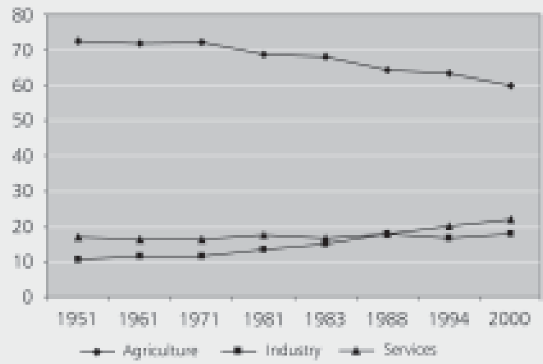
Figure 5.1 **Sectoral Distribution of Employment, GDP, and Labor Productivity (1999/2000)**




Note: GDP shares and labour productivity data are based on constant 1999-2000 prices. Figures above shares in GDP represent average labor productivity for each sector.
Source: Tendulkar (2004) for employment data; authors' computations for GDP and labour productivity data based on CSO (2005).

Unfortunately, the structural transformation in employment—i.e., a shift from the sector of lowest productivity (agriculture) to higher-productivity sectors (industry and services)—has not been very rapid. This can be seen from Figure 5.2 below, which describes the evolution of employment shares across agriculture, industry, and services from the early 1950s to 2000.

**Figure 5.2 Employment Shares**




Note: The data for 1951 to 1981 are from the decennial population census, and those for the remaining years are from NSS large-sample surveys on employment and unemployment. While the census and intercensal data are not strictly comparable with the NSS estimates, the two sets of figures do show the broad pattern of change.
Source: Sundaram (1987), Chadha and Sahu (2002).

These figures highlight the central challenges facing the Indian economy: the need to raise the meager productivity of Indian agriculture and, at the same time, accelerate the shift from agricultural employment to higher-productivity employment in industry and services.

These are not the only important challenges, of course. As will be discussed below, labor force participation rates, especially for women, are exceedingly low and must increase. On the other hand, the participation of children in the labor force must be eliminated. Moreover, India's labor markets are more complex than the sharp dichotomies between employment shares and aggregate productivity across its agriculture, industry, and services sectors indicate. Indeed, it is useful to think about Indian labor markets in terms of three broad segments:

1. An agriculture sector, which employs around 60% of the total workforce (and 76% of the rural workforce) and contributes about a quarter of domestic output, as seen above. Agricultural output is largely produced by self-employed cultivators of family farms. Agriculture labor, which

mainly subsists on wage labor, consists of about 30% of the rural workforce and its share seems to be rising.

2. An organized (or formal) sector, which is predominantly urban, employs around 7% of the workforce, and produces about 40% of the domestic output mainly in industry and services in the public sector, private corporate sector, and factory manufacturing. [12, 13]
3. An urban informal sector which lies between the above two broad sectors, engaged in the production of a variety of consumer and producer goods and services in urban areas. Wages and working conditions in this sector are usually much poorer than in the organized sector, perhaps close to those in rural areas. However, compared with rural areas, the informal sector has some access to "modern" facilities like education and health and more opportunities to increase earnings.

With this perspective, a key feature of labor market trends in India is the slow shift in employment toward the urban informal sector, with out-migration from rural areas and a small decline in the share, if not the size, of the organized sector. The rest of this section looks in much more detail at the structure of the Indian labor market and trends in its key indicators.

### 5.3.1 Population, Labor Force, and Employment

As may be seen from Table 5.1, which gives various demographic statistics, India's population nearly tripled in the second half of the 20th century. The population is now a little more than one billion, the bulk of which is rural (72%). Although population growth rates have recently fallen below 2% per year, high population growth rates over the last four to five decades have given rise to a population that is relatively young. Forty-seven percent of the population—around 483 million individuals—is in the 15– 44 age group.

Table 5.2 below combines information from the last four large-sample surveys on employment and unemployment with population estimates for the corresponding years. The first four data columns give the size of the population, labor force, and employment over the 4 years of the surveys, and the last two columns present the growth rates for these three variables for 1983–1994 and 1994–2000 (when India underwent significant economic liberalization). A comparison of the growth rates for the three variables across the two periods reveals a slowdown in population growth, labor force growth, and employment growth. While the first is to be welcomed, the latter two have been some cause for concern to policy makers. First, the sharp decline in the growth of the labor force is surprising. From the data in Table 5.1, one would expect the labor force to grow at a faster rate as a larger proportion of India's population moves into the working-age groups. Second, although the growth in total employment

Table 5.1 **Population Statistics, 1871–2001**

| Year | Population (millions) | Increment (millions) | Average Annual Growth Rate (%) | Sex Ratio (males per 1,000 females) | Percentage of Population in Age Group 0–14 | 15–44 | 45+ | % Urban |
|---|---|---|---|---|---|---|---|---|
| 1871 | 211.7 | — | — | 1,059 | — | — | — | 8.7 |
| 1881 | 213.5 | 1.8 | 0.08 | 1,039 | 38.4 | 47.0 | 14.6 | 9.3 |
| 1891 | 234.0 | 20.5 | 0.92 | 1,039 | 38.8 | 46.5 | 14.7 | 9.4 |
| 1901 | 238.3 | 4.3 | 0.18 | 1,029 | 38.0 | 46.9 | 15.1 | 10.8 |
| 1911 | 252.0 | 13.7 | 0.56 | 1,038 | 37.8 | 47.0 | 15.2 | 10.3 |
| 1921 | 251.2 | -0.8 | -0.03 | 1,047 | 38.7 | 45.9 | 15.4 | 11.2 |
| 1931 | 278.9 | 27.7 | 1.05 | 1,053 | 38.5 | 46.0 | 15.5 | 12.0 |
| 1941 | 318.5 | 39.6 | 1.33 | 1,058 | 39.1 | 44.3 | 16.5 | 13.9 |
| 1951 | 361.0 | 42.5 | 1.25 | 1,057 | 38.4 | 45.1 | 16.5 | 17.3 |
| 1961 | 439.1 | 78.1 | 1.96 | 1,063 | 41.0 | 43.1 | 15.9 | 18.0 |
| 1971 | 548.2 | 109.1 | 2.22 | 1,075 | 41.9 | 41.9 | 16.2 | 19.9 |
| 1981 | 683.3 | 135.1 | 2.20 | 1,071 | 39.5 | 43.2 | 17.2 | 23.3 |
| 1991 | 846.3 | 163.0 | 2.14 | 1,076 | 37.2 | 44.9 | 17.9 | 25.7 |
| 2001 | 1,027.1 | 180.6 | 1.93 | 1,072 | 34.4 | 47.1 | 18.5 | 27.8 |

Source: Dyson et al. (2004), p. 20.

Table 5.2 **Basic Labor Force Statistics**

| Sector | Employment (millions) 1983 | 1987/88 | 1993/94 | 1999/00 | Growth Rate (% per year) 1983–1993/94 | 1994/93–1999/00 |
|---|---|---|---|---|---|---|
| Total Population | 718 | 790 | 895 | 1,004 | 2.02 | 1.93 |
| Total Labor Force[a] | 309 | 333 | 382 | 406 | 1.96 | 1.03 |
| Total Employment[a] | 303 | 324 | 374 | 397 | 1.95 | 0.98 |

a Labor force and employment estimates are based on large-sample NSS surveys for 1987/88, 1993/94, and 1999/2000.

Notes: 1. The total labor force and employment figures are based on usual principal and subsidiary status.
2. The rates of growth of total employment are compound rates of growth.

Source: Based on Planning Commission (2001), Table 2.12, except for growth rates, which were computed by the authors from unrounded figures reported in Planning Commission (2001).

was only marginally below that of the labor force between 1983 and 1994, the gap between the growth rates of the two variables widened between 1994 and 2000, implying that unemployment had increased.

The issue of declining labor force participation rates can be examined in more detail in Table 5.3. A couple of key features are worth noting. First, labor force participation rates in India are relatively low compared with those in other countries outside South Asia. This is largely because of the low participation rates of females in the labor force. See, for example, the labor force participation rates for females in East Asia and Southeast Asia in Chapter 2 of this volume.

Table 5.3 **Labor Force Participation Rates (all ages, per 1,000)**

| Year | Males | Females | All Persons |
|---|---|---|---|
| 1983 | 545 | 291 | 423 |
| 1987/88 | 545 | 290 | 422 |
| 1993/94 | 556 | 287 | 427 |
| 1999/00 | 541 | 258 | 404 |

Source: Dyson et al. (2004).

Second, the labor force participation rates for females fell rather dramatically in the 1990s. According to Sundaram (2004), this decline was driven largely by shifts in the age structure of the female population, especially in rural India, combined with a rise in the participation of girls in the 5–19 age group in schooling. This phenomenon also applies to males, though less markedly.

Regarding the labor force projections in Table 5.4, increases in labor force participation rates for females over the next 20 years and the proportion of the population in the prime working age (see the projected age distribution in Table 5.5) would lead to expectations of enormous growth in India's labor force. For example, India's labor force is projected to be around 530 million by 2011. While these numbers indicate the potential for a demographic dividend as dependency rates decline, they also highlight the major challenge facing the country, namely that of securing productive employment for the growing labor force.

Table 5.4 **Labor Force Participation Rates (LFPR) and Labor Force Sizes, Projected to 2026 (all ages, per 1,000)**

| Year | Males | Females | All Persons | Labor Force (millions) |
|---|---|---|---|---|
| 2006 | 546 | 317 | 435 | 485 |
| 2011 | 544 | 329 | 440 | 530 |
| 2016 | 543 | 341 | 445 | 574 |
| 2021 | 542 | 353 | 450 | 613 |
| 2026 | 541 | 361 | 453 | 643 |

Source: Nagaraj (2004b): "Fall in Organised Manufacturing Employment: A Brief Note", /Economic and Political Weekly/, Vol. 39, No. 30, July 24, 2004.

Table 5.5 **Age Distribution, Projected to 2026**

| Year | % Aged 0–14 | % Aged 15–49 | % Aged 50–59 | % Aged 60+ | Median Age |
|---|---|---|---|---|---|
| 2001 | 34.4 | 51.7 | 6.9 | 7.0 | 22.7 |
| 2006 | 31.0 | 54.3 | 7.5 | 7.2 | 24.0 |
| 2011 | 28.8 | 55.0 | 8.1 | 8.1 | 25.6 |
| 2016 | 27.7 | 54.4 | 8.9 | 9.0 | 27.5 |
| 2021 | 25.7 | 54.4 | 9.7 | 10.2 | 29.6 |
| 2026 | 23.2 | 54.9 | 10.3 | 11.6 | 31.6 |

Source: Nagaraj (2004b): "Fall in Organised Manufacturing Employment: A Brief Note", /Economic and Political Weekly/, Vol. 39, No. 30, July 24, 2004.

### 5.3.2 Migration

Historically, India has been considered a low-migration country. This is borne out as well by recent data (Tables 5.6 and 5.7).[14] The bulk of migration in India occurs among women on account of marriage; mobility for economic reasons seems still limited. Therefore, the migration is mostly within and across districts and very seldom across states. In fact, interstate migration has been declining in recent decades. International migration is quite minuscule in relation to the size of the population, though made visible outside India and in the country's balance of payments by the inward remittances of emigrants.[15]

Table 5.6 **Migration in India, 1971–1991**

| Census Year | Total Population | All Migrants | Intra-district Migrants | Inter-district Migrants | Interstate Migrants | International Migrants |
|---|---|---|---|---|---|---|
| **1971** | | | | | | |
| Number | 528,585 | 161,812 | 101,225 | 35,009 | 18,293 | 6,653 |
| Percentage | — | 100.0 | 62.6 | 21.6 | 11.3 | 4.1 |
| Males/1,000 females | 107 | 46 33 60 | 104 | 116 | | |
| **1981** | | | | | | |
| Number | 659,300 | 20,6486 | 126,469 | 50,521 | 23,448 | 6,045 |
| Percentage | — | 100.0 | 61.3 | 24.5 | 11.4 | 2.9 |
| Males/1,000 females | 107 | 43 | 31 | 53 | 91 | 114 |
| **1991** | | | | | | |
| Number | 816,154 | 226,705 | 137,065 | 57,469 | 26,202 | 5,673 |
| Percentage | — | 100.0 | 60.5 | 25.4 | 11.6 | 2.5 |
| Males/1,000 females | 108 | 38 | 28 | 45 | 80 | 107 |

Note: Based on census data on the place of last residence.
Source: Dyson et al. (2004), p. 109.

Table 5.7 **Net Intercensal Migration Flows, 1971–1991**

| | 1971 | | | 1991 | | |
|---|---|---|---|---|---|---|
| **Sector** | **Number** | **Percentage** | **Male/ Female** | **Number** | **Percentage** | **Male/ Female** |
| **All Internal** | | | | | | |
| Rural to rural | 40,355 | 62.0 | 47 | 44,756 | 57.2 | 31 |
| Urban to rural | 5,086 | 7.8 | 91 | 6,013 | 7.7 | 66 |
| Urban to urban | 10,775 | 16.6 | 121 | 16,504 | 21.1 | 93 |
| Rural to urban | 8,867 | 13.6 | 109 | 10,978 | 14.0 | 88 |
| Total | 65,083 | 100.0 | 65 | 78,251 | 100.0 | 50 |
| **Interstate** | | | | | | |
| Rural to rural | 2,671 | 30.1 | 88 | 2,828 | 26.1 | 58 |
| Urban to rural | 911 | 10.3 | 133 | 925 | 8.5 | 91 |
| Urban to urban | 2,430 | 27.4 | 172 | 3,541 | 32.6 | 125 |
| Rural to urban | 2,870 | 32.3 | 122 | 3,558 | 32.8 | 91 |
| Total | 8,882 | 100.0 | 122 | 10,852 | 100.0 | 90 |

Source: Dyson et al. (2004), pp. 110–111.

Admittedly, the low estimates of migration reported in the decennial census may underestimate economic migration of shorter duration, as well as circulatory migration between rural and urban areas. Recent surveys of NSSO have sought to capture some of these dimensions by applying a tighter definition. According to these surveys, the levels of migration are going up, but it is hard to discern an acceleration in migration in recent decades.[16]

### 5.3.3 Poverty

One of the most critical indicators of a country's labor market outcomes is the extent of poverty in the country. As can be seen in more detail below, unemployment rates in India are not excessively high. If poverty rates are much higher, this means that many jobs in the economy cannot deliver even a minimally acceptable standard of living to the worker and the worker's family.

Table 5.8 gives various poverty estimates (poverty incidence or head-count ratios) for 3 years over a 12-year period from 1987/88 to 1999/2000. Separate estimates are presented for the rural and urban sectors. The estimates come from both the Government's Planning Commission and independent researchers.[17]

The official estimates indicate a sharp decline in poverty between 1993/94 and 1999/2000. In particular, poverty incidence in both rural and urban areas is seen to decline by around 10 and 9 percentage points, respectively. These declines are much more dramatic than those between 1987/88 and 1993/

94. Since transfers to the poor have been limited, labor market conditions may have improved significantly for many of India's poorest workers.

Unfortunately, there is considerable controversy over the official poverty estimates. Some of it pertains to the deflators used to adjust poverty lines over time. However, a large part of the controversy is due to a change in the questionnaire design used in the 1999/2000 household consumption expenditure survey of the NSSO.

Table 5.8 **Poverty Incidence in India, 1987–2000**

| Source of Data | Head-count Ratio (%) | | | Reduction in Poverty Incidence(Percentage Points) | |
|---|---|---|---|---|---|
| | 1987/88 | 1993/94 | 1999/2000 | 1987/88 to 1993/94 | 1993/94 to 1999/2000 |
| **Rural** | | | | | |
| Government of India (Official) | 39.1 | 37.3 | 27.1 | 1.8 | 10.2 |
| Deaton | 39.4 | 37.1 | 30.0 | 2.3 | 7.1 |
| Sundaram and Tendulkar (MRP)[a] | — | 34.2 | 28.9 | — | 5.3 |
| Sen and Himanshu (MRP3)[a] | 35.2 | 31.9 | — | 3.3 | — |
| Sen and Himanshu (MRP5)[a] | — | 31.6 | 28.8 | - | 2.8 |
| Deaton and Dreze | 39.4 | 33.0 | 26.3 | 6.4 | 6.7 |
| **Urban** | | | | | |
| Government of India (Official) | 38.2 | 32.4 | 23.6 | 5.8 | 8.7 |
| Deaton | 39.1 | 32.9 | 26.7 | 6.2 | 6.2 |
| Sundaram and Tendulkar (MRP) | — | 26.4 | 23.1 | — | 3.3 |
| Sen and Himanshu (MRP3) | 34.9 | 28.0 | — | 6.9 | — |
| Sen and Himanshu (MRP5) | — | 27.9 | 25.1 | — | 2.8 |
| Deaton and Dreze | 23.5 | 17.8 | 12.0 | 5.7 | 5.8 |

a Mixed recall period. The estimates of Sen and Himanshu are for mixed recall periods based on either three (MRP3) or five (MRP5) broad subgroups of consumption. See Sen and Himanshu (2005) for details.

Source: Official estimates reported in Sharma (2004); Deaton (2005); Deaton and Dreze (2005); Sundaram and Tendulkar (2005); and Sen and Himanshu (2005).

Ever since the Government of India began carrying out household expenditure surveys, households have been asked to recall their consumption expenditures over a 30-day reference period. Pilot surveys done by the NSSO between 1994 and 1998 randomly assigned among sample households questionnaires with either a 7-day or a 30-day recall period. On the questionnaires with the shorter recall period, standardized per capita consumption was higher (13–18% higher on average in both urban and rural areas) (Sharma 2004). This result is not surprising since respondents' memory becomes less reliable as the recall period lengthens. The 1999/2000 questionnaire, however, asked all sample households to report consumption expenditures over both a 7-day and a 30-day recall period, resulting in only a 3–4% difference in standardized per capita consumption between the two periods. This close consistency is widely believed to result from attempts by respondents to reconcile their answers for the two recall periods.

Since it is unclear which households may have scaled up their expenditures (i.e., multiplied their 7-day expenditures by about 4 to arrive at their 30-day expenditures) or scaled down their expenditures (i.e., divided their 30-day expenditures by about 4 to arrive at their 7-day expenditures), the consumption expenditures are not consistent with the results of earlier large-sample surveys, which focused on a 30-day recall period only.

The fact that official poverty estimates show the sharpest declines in poverty rates between 1993/94 and 1999/2000 has led critics to argue that the extent of poverty reduction has been overstated by the use of a 7-day recall period by a significant proportion of sample households.

Attempts to correct for the changes in the questionnaire design—by relying on responses to those sets of goods for which recall periods have remained the same, such as clothing, footwear, and fuel and lighting—reveal a much less rapid decrease in poverty rates. These attempts include those of Deaton (2005), Sundaram and Tendulkar (2005), and Sen and Himanshu (2005), as well as Deaton and Dreze (2005), who also use a very different set of deflators to keep their poverty lines constant in real terms over time and especially across rural and urban areas.[18]

As an examination of Table 5.8 reveals, the declines in poverty between 1993/94 and 1999/2000 as estimated by these researchers were less rapid than those based on the official estimates. The smallest declines were reported by Sen and Himanshu: a 2.8 percentage point decline in both rural and urban areas. Unfortunately, a clearer picture of poverty reduction since the economic reforms of 1991 may well have to wait for the release of the 2004/05 large-sample survey, which reverted to the exclusive use of a 30-day recall period for major consumption goods.

### 5.3.4 Unemployment and Underemployment

Underdeveloped economies suffer from widespread underemployment, and much less open unemployment for the simple reason that it is hard to remained unemployed without a formal and effective social security system. Nevertheless, it is important to examine the behavior of unemployment rates. The NSSO in India has evolved a system of capturing unemployment through the time-use method (see Box 5.1). Put simply, a worker is asked if he or she was working (i) last year (usual status), (ii) last week (current week status), and (iii) yesterday (current daily status). If a worker has not been working, but sought or was available for work during the reference period, he or she is classified as part of the labor force but unemployed.

Table 5.9 shows the trends in unemployment according to the above definitions based on the large-sample NSS surveys. As may be expected, unemployment is very low on the Usual Principal Status basis (over the last 365 days), and is highest on the Current Daily Status (CDS) basis. The CDS unemployment rates in rural and urban areas were between 7% and 8% in 1999/2000, the latest year in which a large-sample survey was carried out. These unemployment rates were higher than those for 1993/94. To make matters worse, projection-based estimates of unemployment indicate that CDS unemployment rates have climbed even further since 1999/2000.[19]

Table 5.9 **Unemployment Rates, as Percentage of the Labor Force**

| | **Alternative Measures** | | | |
|---|---|---|---|---|
| **Year** | **Usual Principal Status (UPS)** | **Usual Principal and Subsidiary Status (UPSS)** | **Current Weekly Status (CWS)** | **Current Daily Status (CDS)** |
| **Rural** | | | | |
| 19831.91 | 1.13 | 3.88 | 7.94 | |
| 1987/88 | 3.07 | 1.98 | 4.19 | 5.25 |
| 1993/94 | 1.80 | 1.20 | 3.00 | 5.63 |
| 1999/2000 | 1.96 | 1.43 | 3.91 | 7.21 |
| **Urban** | | | | |
| 19836.04 | 5.02 | 6.81 | 9.52 | |
| 1987/88 | 6.56 | 5.32 | 7.12 | 9.36 |
| 1993/94 | 5.21 | 4.52 | 5.83 | 7.43 |
| 1999/2000 | 5.23 | 4.63 | 5.89 | 7.65 |
| **India (Rural and Urban)** | | | | |
| 19832.77 | 1.90 | 4.51 | 8.28 | |
| 1987/88 | 3.77 | 2.62 | 4.80 | 6.09 |
| 1993/94 | 2.56 | 1.90 | 3.63 | 6.03 |
| 1999/2000 | 2.81 | 2.23 | 4.41 | 7.32 |

Source: Planning Commission (2001).

Box 5.1 **Measures of Employment and Unemployment**

- **Usual Principal Status (UPS)**: A person is counted as being in the labor force on UPS basis if he or she was engaged in economic activity (work) or was seeking or was available for work for the major part of the preceding 365 days. Those classified as being in the labor force on this basis are further classified as employed or unemployed depending on whether the majority of the days in the labor force were spent in economic activity or in seeking/being available for work. The UPS unemployment rate is the proportion of those classified as unemployed on this basis, expressed as a percentage of those classified as being in the labor force. On this criterion, persons can be counted as being employed even if they were unemployed (or were outside the labor force) for a significant part of the year. Equally, a person can be counted as unemployed even though he or she may have been employed for part of the year.

- **Usual Principal and Subsidiary Status (UPSS)**: This provides a more inclusive measure covering, in addition, the participation in economic activity on a more or less regular basis of those classified as unemployed on the UPS basis as well as those classified as being outside the labor force on the same criterion. This would result in a larger proportion of the population in the labor force, with a higher proportion of workers and lower unemployment rates relative to the UPS criterion.

- **Current Weekly Status (CWS)**: The reference period here is the week, i.e., the 7 days before the interview. A person is counted as employed if he or she was engaged in economic activity for at least 1 hour on any day during the reference week. A person not engaged in economic activity even for 1 hour on any day but seeking or available for work during the reference week is classified as unemployed. To the extent that employment varies seasonally over the year, the labor force participation rates on the CWS basis would tend to be lower. However, reflecting the unemployment during the current week of those classified as being employed on the UPS (and the UPSS) criterion, the CWS unemployment rates would tend to be higher. The difference between the unemployment rates on the CWS and the UPS basis provide one measure of seasonal unemployment.

- **Current Daily Status (CDS)**: On the basis of the reported time disposition of the person on each day of the reference week (in half-day units for the various activities in a day), person-days in employment or unemployment) are aggregated to generate estimates of person-days in employment or unemployment. The person-day unemployment rate is the ratio of person-days in the labor force (i.e., person-days in employment plus person-days in unemployment). This measure captures the within-week unemployment of those classified as employed on the CWS basis. It is widely agreed that the CDS measure of unemployment most fully captures open unemployment in the country.

Source: Planning Commission (2001).

The actual time requirements used by the NSSO in classifying a labor force participant as employed are quite meager. For example, a worker who was employed for only 1 hour in a day on each of the 7 days of the reference week would be classified as employed (according to the CWS and CDS definitions). Clearly, such an approach could seriously overstate or understate the true extent of employment or unemployment in the country if the worker was not working more hours involuntarily.

The concept of time-based underemployment tries to give a more complete picture of labor underutilization by taking into account the situation where workers are involuntarily employed less than full-time (typically between 40 and 48 hours a week, depending on country practice). What is the extent of underemployment in India? Unfortunately, Indian statistics do not provide a way to answer this question satisfactorily. The difference between the weekly and daily unemployment status is often used as a measure of underemployment. However, as Ghose (2004) points out, this procedure leads to implausibly low figures for underemployment. For example, a person who can find work for only 1 hour a day each day of the week would have an identical weekly and daily unemployment status (not unemployed in terms of both). Such a person would not be deemed to be underemployed.

Ghose computes an alternative estimate of underemployment for 1999/2000, on the assumption that each worker seeks 8 hours of work for 6 days a week. Further, he assumes that each worker who reports having worked in a 4-hour half-day unit (the time frame adopted by the NSSO in its surveys) is fully employed for 4 hours. On the basis of these assumptions, Ghose obtains an overall underemployment rate of 13% (among the employed) for India in 1999/2000. However, casual wage workers—those who work on daily or periodic (short-term) contracts—experience far higher rates of underemployment, as can be seen from Table 5.10.

Table 5.10 **Rate of (time-based) Underemployment, 1999/2000 (%)**

| | **Male** | **Female** | **Employed Persons** |
|---|---|---|---|
| Self-Employed | 5.0 | 21.7 | 11.7 |
| Casual Wage Worker | 21.7 | 28.3 | 25.0 |
| All Employed Persons | 10.0 | 21.7 | 13.3 |

Source: Ghose (2004).

However, even Ghosh's measure of (time-based) underemployment does not adequately capture the underutilization of labor that results from low-productivity, low-wage employment. One way to tackle this problem is to examine the number of workers from families whose per capita expenditures put them below the poverty line. Since there is a close link between labor earnings and expenditures, such an approach should be more reflective of the true extent of underemployment in India.

This is the approach taken by Sundaram and Tendulkar (2002), who focus on the nature of poverty in the workforce. Taking the rural and the urban population together and netting out the (openly) unemployed, Sundaram and Tendulkar estimate the number of working poor in 1994 as 133.5 million, or more than 37% of the workforce. Between 1994 and 2000 they estimate that the number went down by about 4.7 million. This decrease combines a sharper decline in rural areas and a rise in the number of working poor in urban areas by about 1.5 million.

A second approach to capturing the broader notion of underemployment is to estimate how many workers are employed at low levels of productivity. As may be noted from Table 5.11 below, labor productivity in the agriculture sector, which employed 240 million workers, is far lower than in either the industry or the services sector. By computing the difference between the actual number of workers employed in the agriculture sector and the smaller number that would need to be employed to produce an unchanged volume of agricultural output had labor productivity been the same as in industry, one can get a rough estimate of the extent of underemployment in the sense of low-productivity work. The computations reveal that about 171 million workers in agriculture—43% of total employment—were underemployed in 1999/2000. If labor productivity in the services sector were to be taken as a benchmark, underemployment would be even higher.

Table 5.11 **Employment and Value Added Per Worker (1999/2000)**

| **Sector** | **Employment (in millions)** | **Value Added per Worker (rupees)** |
|---|---|---|
| Agriculture | 240 | 19,195.02 |
| Industry | 69 | 66,185.33 |
| Services | 89 | 95,149.31 |

Note: Value added figures are in constant 1999/2000 rupees.
GDP in agriculture is a 3-year average (1998/99, 1999/2000, 2000/01).

Source: Tendulkar (2004) for employment; authors' computations for value added per worker based on Central Statistical Organisation (2005).

### 5.3.5 Wages

Tables 5.12 and 5.13 give statistics on regular and casual workers in rural and urban areas and their real hourly wages and salaries, using data from the last four large-scale NSS surveys[20] (see Box 5.2 on the different types of employment as captured by Indian labor force statistics). Because of data problems, information on rural workers from the 1987/88 round is not presented.[21] Before describing the behavior of wages, it is useful to examine various summary statistics on wage and salaried workers.[22] As can be seen from Table 5.12, around four fifths of wage and salaried workers in the rural areas are casual workers and therefore subject to daily or periodic (short-term) contracts. In contrast, around 70% of urban workers define themselves as being regular workers and therefore subject to longer-term contracts. Almost 70% of wage and salaried workers in the rural areas are male, compared with around 82% in the urban areas. As may be expected, educational attainment is far lower in rural areas—in fact, a majority of rural wage and salaried workers are

**Table 5.12 Percentage Distribution of Wage and Salaried Workers (Rural and Urban), 1983/84 to 1999/2000**

| | Rural | | | Urban | | | |
|---|---|---|---|---|---|---|---|
| | 1983 | 1993/94 | 1999/2000 | 1983 | 1987/88 | 1993/94 | 1999/2000 |
| **By Type** | | | | | | | |
| Regular | 21.11 | 18.05 | 17.91 | 72.10 | 73.69 | 71.07 | 70.81 |
| Casual | 78.89 | 81.95 | 82.09 | 27.90 | 26.31 | 28.93 | 29.19 |
| **By Gender** | | | | | | | |
| Male 68.66 | 69.20 | 69.46 | 82.64 | 82.34 | 81.67 | 82.53 | |
| Female | 31.34 | 30.80 | 30.54 | 17.36 | 17.66 | 18.33 | 17.47 |
| **By Education** | | | | | | | |
| Illiterate | 67.20 | 59.20 | 53.89 | 25.75 | 24.12 | 22.01 | 19.03 |
| Below Primary | 10.47 | 12.15 | 11.85 | 11.00 | 10.97 | 10.41 | 8.70 |
| Primary School | 9.93 | 10.14 | 10.66 | 15.33 | 15.61 | 12.27 | 11.25 |
| Middle School | 5.81 | 8.49 | 11.32 | 15.25 | 13.42 | 14.79 | 16.53 |
| Secondary School | 4.99 | 7.46 | 9.24 | 20.46 | 21.67 | 23.28 | 25.28 |
| College | 1.60 | 2.56 | 3.04 | 12.21 | 14.20 | 17.23 | 19.21 |
| **By Sector** | | | | | | | |
| Agriculture | 74.04 | 71.33 | 69.95 | 7.52 | 6.51 | 7.25 | 5.76 |
| Industry | 12.57 | 14.86 | 15.21 | 38.52 | 39.09 | 38.50 | 37.24 |
| Services | 13.39 | 13.81 | 14.84 | 53.96 | 54.40 | 54.26 | 56.99 |

Source: Hasan and Magsombol (2005).

Table 5.13 **Average Hourly Wages and Salaries of Regular and Casual Workers (rural and urban), 1983 to 1999/2000**

| | Rural | | | Urban | | | |
|---|---|---|---|---|---|---|---|
| | **1983** | **1993/94** | **1999/2000** | **1983** | **1987/88** | **1993/94** | **1999/2000** |
| **Average Hourly Real Wages** | 3.39 | 4.41 | 6.72 | 9.30 | 10.71 | 11.82 | 16.25 |
| 10th Percentile | 1.22 | 1.61 | 2.50 | 2.36 | 2.62 | 2.85 | 3.75 |
| 20th Percentile | 1.63 | 2.02 | 3.11 | 3.38 | 3.59 | 3.99 | 5.32 |
| 80th Percentile | 4.26 | 5.14 | 7.71 | 13.61 | 15.97 | 18.31 | 24.82 |
| 90th Percentile | 6.74 | 8.42 | 12.50 | 17.99 | 21.63 | 24.70 | 35.71 |
| **By Gender** | | | | | | | |
| Male 3.95 | 5.13 | 7.83 | 10.06 | 11.50 | 12.60 | 17.07 | |
| Female | 2.16 | 2.80 | 4.22 | 5.63 | 7.06 | 8.33 | 12.39 |
| **By Type** | | | | | | | |
| Regular | 6.03 | 8.90 | 14.55 | 11.13 | 12.81 | 14.37 | 19.92 |
| Casual | 2.68 | 3.42 | 5.02 | 4.55 | 4.84 | 5.55 | 7.35 |
| **By Education** | | | | | | | |
| Illiterate | 2.57 | 3.20 | 4.62 | 4.97 | 5.34 | 5.99 | 7.28 |
| Below Primary | 3.44 | 4.08 | 6.02 | 6.81 | 7.26 | 7.66 | 9.67 |
| Primary School | 3.95 | 4.68 | 6.63 | 7.17 | 7.88 | 7.94 | 10.10 |
| Middle School | 510 | 5.64 | 7.80 | 8.35 | 9.38 | 9.53 | 11.65 |
| Secondary School | 8.38 | 9.24 | 13.29 | 12.60 | 14.21 | 14.43 | 18.66 |
| College | 12.35 | 14.86 | 23.17 | 18.96 | 21.57 | 22.97 | 32.51 |
| **By Sector** | | | | | | | |
| Agriculture | 2.58 | 3.23 | 4.67 | 3.81 | 3.86 | 4.74 | 6.09 |
| Industry | 4.62 | 5.70 | 8.63 | 8.93 | 9.96 | 10.83 | 13.78 |
| Services | 6.84 | 9.33 | 14.58 | 10.49 | 12.35 | 13.64 | 19.01 |
| **By Occupation (selected)** | | | | | | | |
| Professionals, Technical | 8.87 | 14.88 | 21.49 | 18.85 | 21.76 | 22.82 | 33.99 |
| Administrative, Executive, Managerial | 12.41 | 17.74 | 24.90 | 24.93 | 29.93 | 31.49 | 45.57 |
| Clerical | 7.97 | 10.77 | 17.44 | 12.66 | 14.86 | 16.59 | 23.51 |
| Service Workers | 3.79 | 5.37 | 10.74 | 6.70 | 7.62 | 8.60 | 11.89 |
| Agrarian Workers | 2.59 | 3.24 | 4.61 | 3.94 | 4.19 | 4.95 | 6.67 |
| Production and Transportation Workers | 4.60 | 5.76 | 8.54 | 7.80 | 8.46 | 9.23 | 11.63 |
| **Gini Coefficient of Hourly Real Wages** | 0.39 | 0.39 | 0.40 | 0.41 | 0.42 | 0.43 | 0.46 |

Note: In constant 1999/2000 prices.
Source: Hasan and Magsombol (2005).

Box 5.2 **Different Types of Employment**

**Self-employed in household enterprises.** Persons who operate their own farm or nonfarm enterprises or are engaged independently in a profession or trade on own-account or with one or a few partners. The essential feature of self-employment is that the remuneration is determined wholly or mainly by sales or profits of the goods or services produced. In the "putting out" system, where part of a job is done in different household enterprises, persons are considered self-employed if they have some tangible or intangible means of production, they work in an enterprise, and the fee or remuneration consists of two parts, namely, the share of their labor and the profit of the enterprises. Self-employed persons may be further categorized as follows:

**Own-account workers.** Self-employed persons who operate enterprises on their own account or with one or a few partners and who during the reference period by and large run the enterprise without hiring any labor. They may, however, have unpaid helpers to assist them in the activity of the enterprise.

**Employers.** Self-employed persons who work on their own account or with one or a few partners and by and large run their enterprise by hiring labor.

**Helpers in household enterprise.** Self-employed persons, mostly family members, who keep themselves engaged in household enterprises, working full- or part-time, and do not receive a regular salary or wages in return for the work performed. They do not run the household enterprise on their own but assist the related person living in the same household in running the enterprise.

**Regular salaried/wage employee.** Persons working in others' farm or nonfarm enterprises (both household and nonhousehold) and getting in return salary or wages on a regular basis (and not on the basis of daily or periodic renewal of work contract). This category includes not only persons getting time-based wage but also persons receiving piece wage or salary, and paid apprentices, both full-time and part-time.

**Casual wage labor.** A person casually engaged in others' farm or nonfarm enterprises (both household and nonhousehold) and getting in return wages according to the terms of the daily or periodic work contract.

Source: Documentation of NSSO Round 50 (1993/94) survey.

not literate. Finally, while agriculture employs around 70% of wage and salaried workers in the rural areas (with the rest distributed about equally between industry and services in 1999/2000), the services sector is the single biggest employer in the urban areas (employing 57% of the urban workforce, versus 37% for industry, in 1999/2000).

Regarding real hourly wages, the data reveal a number of regularities across the years (Table 5.13). Urban wages are higher than rural wages (142% to 174% higher over the various years); men get paid more than women (83% to 171% higher over the various years); regular workers earn more than casual workers (125% to 190% higher over the various years); better-educated workers are paid more (281% to 402% higher for college-educated workers than for illiterate workers over the various years); and average wages are highest in services, followed by industry and then agriculture (average wages in the services sector are 17% to 69% higher than in the industry sector, and 165% to 212% higher than in the agriculture sector over the various years).

The data also reveal a relatively sharp increase in average wages between 1993/94 and 1999/2000. This is true for both the rural and urban sectors. An examination of wages at different points of the wage distribution reveal, however, that the largest gains—in levels if not percentage terms—have gone to workers at the top end of the wage distribution. In other words, a fair amount of the large increase in average wages registered between the latest two large-sample NSS surveys has been driven by the wages of the relatively better off. Additionally, the behavior of wages by educational attainment, occupation, and sector of employment indicates that the largest wage increases (in levels and often also in percentage terms) have taken place for workers with a college education; those in professional, technical, administrative, executive, and managerial occupations; and those working in the services sector. Finally, inequality measured in terms of the Gini coefficient has worsened marginally in the rural areas but more dramatically in the urban areas. For example, while the urban Gini coefficient increased by around one percentage point between 1983 and 1987/88 and between 1987/88 and 1993/94, it increased by as much as three percentage points between 1993/94 and 1999/2000.

Focusing more closely on the wages of agricultural workers—the lowest paid of all workers in India—Table 5.14 shows that there is enormous interregional variation in real agricultural wages across the major Indian states.[23] It is perhaps reasonable to suggest that the observed spatial variation is broadly consistent with land productivity, though there is no clear evidence on this issue. The table also shows that the wage rates increased in all the states from 1983 to 1999/2000, but there is some dispute about the observed deceleration in 1993/94–1999/2000. The earnings of agriculture workers—current wages times the number of days of work—are, however, not enough to overcome poverty, as noted previously.

Table 5.14 **Agricultural Wages in India, by State, 1983 to 1999/2000**

| | Real Wages Per Day | | | | Growth in Wages | | |
|---|---|---|---|---|---|---|---|
| **State** | **1983** | **1987/88** | **1993/94** | **1999/2000** | **1983–1987/88** | **1987/88–1993/94** | **1993/94–1999/2000** |
| Andhra Pradesh | 31.2 | 38.8 | 42.8 | 46.0 | 5.0 | 1.6 | 1.2 |
| Assam | 40.0 | 52.2 | 50.0 | 51.7 | 6.4 | (0.7) | 0.6 |
| Bihar | 28.8 | 37.4 | 41.6 | 41.4 | 6.0 | 1.8 | (0.1) |
| Gujarat | 36.5 | 36.2 | 41.9 | 62.1 | (0.2) | 2.5 | 6.8 |
| Haryana | 68.4 | 67.3 | 81.9 | 73.0 | (0.4) | 3.3 | (1.9) |
| Karnataka | 25.2 | 29.6 | 37.5 | 43.3 | 3.4 | 4.0 | 2.4 |
| Kerala | 56.5 | 68.0 | 78.2 | 110.6 | 4.2 | 2.4 | 6.0 |
| Madhya Pradesh | 27.0 | 31.5 | 37.9 | 43.0 | 3.4 | 3.2 | 2.1 |
| Maharashtra | 26.1 | 29.8 | 42.7 | 38.9 | 3.0 | 6.2 | (1.6) |
| Orissa | 21.4 | 27.9 | 37.0 | 36.8 | 6.1 | 4.8 | (0.1) |
| Punjab | 58.8 | 69.9 | 85.0 | 75.8 | 3.9 | 3.3 | (1.9) |
| Rajasthan | 49.2 | 56.7 | 43.4 | 58.6 | 3.2 | (4.4) | 5.1 |
| Tamil Nadu | 24.8 | 29.0 | 41.5 | 63.7 | 3.5 | 6.1 | 7.4 |
| Uttar Pradesh | 34.8 | 41.0 | 46.3 | 54.0 | 3.7 | 2.0 | 2.6 |
| West Bengal | 32.4 | 54.1 | 61.6 | 64.9 | 12.1 | 2.1 | 0.9 |
| All India | 32.0 | 40.0 | 47.0 | 50.9 | 5.1 | 2.7 | 1.3 |

Note: In constant 1999/2000 prices.
Source: Himanshu (2004), p. 8.

### 5.3.6 Quality of Employment and Labor in the Organized Sector

Assessing the quality of employment, and its evolution over time, is by no means easy. From the perspective of workers, several attributes of employment besides the amount of wages and salaries (or earnings for the self-employed) are important. Working conditions, including the hours of work, the degree of job or income stability, and access to social security schemes providing coverage for pensions, ill health, and disability, are all important attributes that contribute to the quality of employment. The degree of upward mobility offered by employment, including how much a particular job allows the worker to build his or her human capital, could also be considered an important attribute of good employment.

Data limitations make it very difficult to examine these other nonwage attributes of employment. However, the available data do allow us to examine "employment status" in India. In broad terms, workers can be assigned to four types of employment status: regular wage employment in the organized (or modern or formal) sector; regular wage employment in the unorganized (or traditional or informal) sector; self-employment (mostly in the unorganized sector); and casual wage employment (in the organized or unorganized sector).

Most, if not all, observers of Indian labor markets would agree that regular wage employment in the organized sector is the highest-quality and most coveted type of employment. In addition to being relatively well paid and having greater job stability, regular wage workers in the organized sector are protected by various labor laws and formal systems of social security. In contrast, casual wage employment would qualify for the lowest quality of employment. Such workers are not only the lowest-paid (Table 5.13), their short contracts—often on a daily basis—and little or no recourse to protective labor regulations and social security mechanisms subject them to difficult working conditions and leave them unprotected from a variety of job-related risks.

In between are self-employed persons and regular wage employees in the unorganized sector. Ranking the quality of employment between these two groups is not easy. Ghosh (1999), for example, argues that the former enjoy greater income security/stability than the latter and therefore assigns higher quality to self-employment than to regular wage employment in the unorganized sector. However, the self-employed constitute a very heterogeneous group (something that Ghosh himself points out) and includes individuals who are forced to turn to self-employment in low-productivity but arduous tasks for want of better employment opportunities.

The data in Table 5.15 on the employment of workers by employment status for 1983 to 1999/2000 (using the last four large-scale NSS surveys) should be viewed with this caveat in mind. Unfortunately, except for the most recent survey, NSS data do not allow one to distinguish between regular wage and salaried workers in the organized sector and their counterparts in the unorganized sector. Nevertheless, these data reveal that the share of self-employment has been declining over time, especially in the rural areas.

While the shares of both regular and casual wage employment have increased for the country as a whole, the greater part of this increase is composed of increases in casual wage employment in the rural areas. If casual wage employment can be categorized as the worst type of employment, these data suggest that the quality of employment in India has deteriorated over the last 20 years. The increasing proportion of casual employment is popularly referred to as the “casualization” of the Indian workforce.

Of course, it is possible that while the share of casual workers has gone up, the share of regular wage and salaried workers employed in the organized sector has also been increasing. To see if this is the case, it is useful to merge data from the NSS surveys with employment statistics on the organized sector workers collected by the Directorate-General of Employment and Training (DGET) of the Ministry of Labour for roughly overlapping periods. For comparison, data on population, labor force size, and total employment are repeated.

Table 5.15 **Distribution of Workers by Employment Status, 1983 to 1999/2000**

| **Year** | **Self-Employed (%)** | **Regular Salaried (%)** | **Casual (%)** |
|---|---|---|---|
| **Rural Areas** | | | |
| 198361.0 | 7.5 | 31.5 | |
| 1987/88 | 59.4 | 7.7 | 32.9 |
| 1993/94 | 58.0 | 6.4 | 35.6 |
| 1999/2000 | 56.0 | 6.7 | 37.3 |
| Urban Areas | | | |
| 198341.8 | 40.0 | 18.2 | |
| 1987/88 | 42.8 | 40.3 | 16.9 |
| 1993/94 | 42.3 | 39.4 | 18.3 |
| 1999/2000 | 42.1 | 40.1 | 17.8 |
| **Rural and Urban Combined** | | | |
| 198357.4 | 13.9 | 28.7 | |
| 1987/88 | 56.0 | 14.4 | 29.6 |
| 1993/94 | 54.8 | 13.2 | 32.0 |
| 1999/2000 | 52.9 | 13.9 | 33.2 |

Source: Planning Commission (2001).

As can be inferred from Table 5.16, organized sector employment is less than 10% of the workforce. The growth in organized employment was low over the period listed. It was about 1.2% per year in the 1980s, and it declined to less than 1% in the 1990s. These growth rates were consistently less than the growth in the labor force and in total employment.[24] As a result, the share of organized sector employment in total employment declined steadily in the 1990s.[25] The share of organized sector employment in total regular wage and salaried employment also declined in general.[26]

The decline in organized sector employment (in share terms) suggests that at the same time that the share of "low-quality" employment, i.e., the share of casual wage labor, has increased, there has also been a decline in the share of the highest-quality jobs. However, two points must be considered in assessing the decline in organized employment as seen from the data just presented. First, the organized employment numbers reported by the DGET have come under criticism. Sundaram (2004), in particular, points to deficiencies in the collection of statistics from organized sector enterprises, especially in the rapidly expanding private sector. On the basis of the 1999/2000 large-scale NSS survey on employment and unemployment, a survey in which workers reported the type of enterprise that employed them, Sundaram reports organized sector employment of 31.85 milion in nonagricultural activities. This figure may be compared with the 26.54 million reported by the DGET for March

Table 5.16 **Total Employment and Organized Sector Employment**

| Item | Employment(millions) | | | | Growth Rate(% per year) | |
|---|---|---|---|---|---|---|
| | 1983 | 1987/88 | 1993/94 | 1999/2000 | 1983–1993/94 | 1993/94–1999/2000 |
| Population | 718 | 790 | 895 | 1,004 | 2.02 | 1.93 |
| Labor Force[a] | 309 | 333 | 382 | 406 | 1.96 | 1.03 |
| **Total Employment**[a] | 303 | 324 | 374 | 397 | 1.95 | 0.98 |
| Self-employed[b] | 174 | 182 | 205 | 210 | 1.52 | 0.39 |
| Regular salaried[b] | 42 | 47 | 49 | 55 | 1.47 | 1.85 |
| Casual worker[b] | 87 | 96 | 120 | 132 | 2.96 | 1.60 |
| **Organized Sector Employment** | 24 | 26 | 27 | 28 | 1.20 | 0.45 |
| Public sector | 16 | 18 | 19 | 19 | 1.52 | (0.03) |
| Private sector | 8 | 7 | 8 | 9 | 0.45 | 1.56 |

a Labor force and employment estimates are based on large-sample NSS surveys for 1987/88, 1993/94, and 1999/2000.

b These are computed by multiplying the rural and urban combined percentage data in Table 5.15 with total employment.

Notes: 1. The total labor force and employment figures are on Usual Principal and Subsidiary Status basis.
2. The rates of growth are compound rates of growth.
3. The organized sector employment figures are as reported in the Employment Market Information System of the Ministry of Labour and pertain to March of 1983, 1988, 1994, and 1999.

Source: Based on Planning Commission (2001), Table 2.12, except for the growth rates, which the authors computed on the basis of unrounded figures reported in Planning Commission (2001).

2000. The services sector makes up almost entirely for the difference between the two estimates.

Second, even if one were to go with the DGET numbers, a striking feature of organized sector employment is the dominance of the public sector and the slowdown in public sector employment growth. A closer understanding of the operations of the public sector can help put the trends in organized sector employment in clearer perspective. Table 5.17 gives details of organized sector employment by industry, as well as the share of organized sector employment in total employment and the share of the public sector in organized sector employment. As can be seen from the table, two-thirds of organized sector employment is generated by the public sector (including public administration and defense). The rest comes from the private corporate sector, registered manufacturing, and recognized educational institutions; even here, two sectors—manufacturing and community, social, and personal services—account for more than 60% of employment.

Table 5.17 **Organized Sector Employment, 1999/2000**

| Sector | Employment (millions) | | Organized Sector Share in Total Employment (%) | Public Sector Share in Organized Sector Employment (%) |
|---|---|---|---|---|
| | Total | Organized Sector | | |
| Agriculture | 237.6 | 1.4 | 0.6 | 36.2 |
| Mining and Quarrying | 2.3 | 1.0 | 44.7 | 91.9 |
| Manufacturing | 44.0 | 6.8 | 15.3 | 23.1 |
| Electricity, Gas, and Water Supply | 1.1 | 1.0 | 95.2 | 95.8 |
| Construction | 17.6 | 1.2 | 6.7 | 95.0 |
| Trade | 41.3 | 0.5 | 1.2 | 33.1 |
| Transport, Storage, and Communication | 14.7 | 3.2 | 21.4 | 97.8 |
| Financial Services | 5.0 | 1.7 | 32.9 | 78.4 |
| Community, Social, and Personal Services | 33.4 | 11.5 | 34.4 | 85.0 |
| All Sectors | 397.0 | 28.1 | 7.1 | 69.1 |

Source: Planning Commission (2001); Glinskaya and Lokshin (2005), Table 2.

Public sector employees, mainly in industry and especially services, receive much higher wages and various benefits such as job security and access to social security. The higher wages of public sector employees is clearly seen from Table 5.18, which gives the annual wages per worker in different subsectors of the factory sector. The higher wages in the public sector are due partly to the sector's compliance with labor regulations and human capital variables like education, skill, and experience.

Table 5.18 **Annual Wages Per Worker in the Factory Sector, 1997/98**

| Subsector | Mean Per Worker (rupees) | % of Average |
|---|---|---|
| Wholly Central Government | 80,605 | 194 |
| Wholly State/Local Government | 54,754 | 132 |
| Central and State/Local Government | 39,819 | 96 |
| **Total Public Sector** | **62,937** | **152** |
| Joint Sector (Public) | 70,353 | 170 |
| Joint Sector (Private) | 60,067 | 145 |
| **Total Joint Sector** | **66,644** | **161** |
| Wholly Private | 32,342 | 78 |
| Unspecified | 40,215 | 97 |
| **Average** | **41,496** | **100** |

Note: The factory sector comprises manufacturing, electricity, gas and water, repair services, and cold storage.
Source: Glinskaya and Lokshin (2005), Table 4.

However, the superior wages and working conditions in the public sector are also to some extent due to the wage-setting mechanism for central government employees, which is more of a political bargain, and is regardless of the Government's ability to pay or productively employ these workers.[27] This is consistent with the findings of a Mincerian wage regression. Table 5.19 gives the results of a regression of hourly real wages on employment in the public sector after controlling for individual characteristics including age, gender, educational attainment, industry of employment, and nine occupational categories. In addition, two separate dummies are included for employment in public sector (or semipublic sector) units and private organized sector units. This regression is based on data from the 1999/2000 employment-unemployment NSS survey. Employment in the public sector is associated with a wage premium of 73% in the urban areas. In contrast, employment in the organized private sector is associated with a wage premium of 30% in the urban areas. Of course, it is quite possible that more capable workers are attracted to employment in the better-paying public sector—a phenomenon that would account for at least some of the wage premium for working in the public sector.[28] But it is unlikely that this is all that is driving higher wage premiums, given what is known about how the public sector operates.

When seen in this light, the rapid expansion of organized sector employment—driven by public sector employment until the early 1990s (Figure 5.3)—may have been unsustainable. Tendulkar (2004) points out that in the 1980s in particular, public sector employment grew despite declining productivity and profitability, and rising labor costs. He goes on to argue that this itself was a significant reason for the subsequent troubles in the sector.

To the extent that employment in the private organized sector is based on better economic foundations, the faster growth of private organized sector employment is a positive sign. But even so, the growth in the private sector was registered on account of trends in the first half of the 1990s; the years between 1996 and the early 2000s were marked by a slowdown.

### 5.3.7 Industrial Employment and Wages

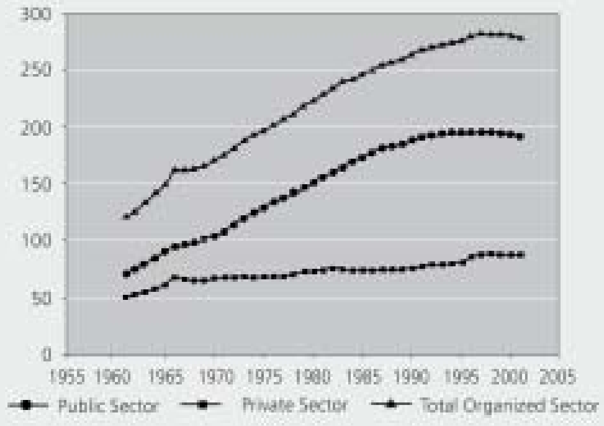
For many economists, industrialization has often been synonymous with economic development. While a structural transformation, whereby agriculture's share of employment and production declines in favor of industry, has been under way in India, the pace of this transformation has been slow, as noted from Figure 5.1. Moreover, an important feature of the transformation out of agricultural employment and production has been the greater dynamism of India's services sector compared with the industry sector. Between 1983 and 1999/2000, industry's share of employment grew by 2.7 percentage points and its share of GDP grew by 2.3 percentage points. In contrast, the services sector's

Table 5.19 **Regression Results**

| **Dependent Variable** | **Total** | **Rural** | **Urban** |
|---|---|---|---|
| Age | 0.04** | 0.03** | 0.06** |
| | (1404.15) | (1097.99) | (951.41) |
| Age Square | — 3.0 x e $^{-4}$ ** | — 3.0 x e $^{-4}$ ** | — 6.0 x e $^{-4}$ ** |
| | (1022.30) | (839.16) | (681.04) |
| Male | 0.36** | 0.36** | 0.39** |
| | (2965.69) | (2951.44) | (1231.02) |
| Below Primary | 0.13** | 0.11** | 0.19** |
| | (774.85) | (666.55) | (421.77) |
| Primary School | 0.18** | 0.15** | 0.24** |
| | (1028.03) | (840.01) | (564.70) |
| Middle School | 0.23** | 0.18** | 0.32** |
| | (1341.39) | (997.09) | (823.95) |
| Secondary School | 0.48** | 0.39** | 0.56** |
| | (2553.17) | (1751.52) | (1459.30) |
| College Graduate | 0.90** | 0.66** | 0.96** |
| | (3371.96) | (1699.22) | (2055.59) |
| Industry | 0.19** | 0.08** | 0.24** |
| | (408.82) | (168.34) | (205.01) |
| Services | 0.16** | 0.08* | 0.16** |
| | (332.52) | (168.56) | (141.63) |
| Professionals, Technical | 0.63** | 0.55** | 0.49** |
| | (1090.60) | (706.03) | (402.40) |
| Teachers | 0.30** | 0.54** | 0.16** |
| | (547.51) | (887.42) | (128.94) |
| Artists, Entertainers, Religious Workers | — 2.5 x e $^{-3}$ ** | 0.03** | — 0.05** |
| | (2.17)* | (21.41) | (25.89) |
| Administrative, Executive, Managerial | 0.86** | 0.72** | 0.67** |
| | (1270.18) | (665.78) | (516.68) |
| Clerical | 0.36** | 0.44** | 0.21** |
| | (722.06) | (775.28) | (178.98) |
| Sales Workers | 0.07** | 0.02** | — 0.03* |
| | (127.75) | (22.51) | (24.18) |
| Service Workers | 0.17** | 0.20** | 0.04** |
| | (341.54) | (346.52) | (37.64) |
| Production and Transportation Workers | 0.22** | 0.29** | 0.08** |
| | (478.77) | (604.51) | (71.32) |
| Public Sector | 0.54** | 0.44** | 0.55** |
| | (2753.80) | (1599.69) | (1795.62) |
| Private Sector (Organized) | 0.21** | 0.05** | 0.26** |
| | (942.58) | (169.63) | (755.53) |
| Constant | 0.35** | 0.53** | — 0.06** |
| | (758.10) | (1136.83) | (52.12) |
| R-square | 0.57 | 0.45 | 0.51 |
| Observations | 130,452,713 | 92,638,991 | 37,813,722 |

* significant at 5%; **significant at 1%.Note: Absolute t-statistics in parentheses.

Figure 5.3 **Public Sector, Private Sector, and Total Organized Sector Employment**




share of employment grew by 4.9 percentage points and its share of GDP by 10.7 percentage points (Tendulkar 2004).

The rapid growth of India's services sector was in fact the main driver of India's high growth in the 1990s. Not only did the services sector contribute nearly 60% of the overall growth of the Indian economy, exports of services grew at over 17% per year in the 1990s—one of the fastest rates of growth in the world (World Bank 2004).

While the dynamism of the services sector is welcome, India needs a strong industry sector. This is especially important from the perspective of generating employment opportunities that are not only productive but can also be filled by semiskilled workers—an abundant factor in India.[29] For example, while the fast-growing information technology (IT) and business process outsourcing services and financial services are primarily based on, and generate demand for, highly skilled and highly educated workers, often with advanced degrees in specialized subjects, the production of automotive components would require, as an important input, workers with more general levels of skill and education. Put differently, the profile of the average Indian worker matches the latter type of job much better than the former. It is in this context that the industry sector is of particular importance.

Several factors have been advanced to explain the slow growth of industrial employment. These include India's trade and industrial licensing regime and labor regulations. With the liberalization of trade and the dismantling of industrial licensing, labor regulations have become the focus of much attention. While the next section discusses labor regulations in much more detail, it is worth describing here a few broad features of and trends in industrial employment.

First, the vast majority of employment in the industry sector is in the unorganized sector. From NSS data (for total employment in industry) and DGET data (for organized sector employment in industry), the share of organized sector employment in industry was only around 15% in 2000. The case of the manufacturing sector, by far the largest component of the industry sector, is virtually identical (recall Table 5.17). Because it is the modern component of the industry sector, and is therefore much more productive and provides much better wages and working conditions, much importance is given to how organized industry, and manufacturing in particular, is performing.

Second, the last two decades have seen a shift in manufacturing employment into smaller factories and the unorganized sector. Table 5.20 breaks down manufacturing employment into household and nonhousehold manufacturing. Although the share of employment in household manufacturing declined steadily between 1961 and 1991, a breakdown of the nonhousehold manufacturing sector into factory manufacturing (roughly equivalent to the organized sector) and nonfactory, nonhousehold manufacturing (which is a part of the unorganized sector) reveals the growing importance of the unorganized sector in employment.[30] Some observers have pointed to this shift as an effect of labor market rigidities in the organized sector; others have argued that the growth of the unorganized sector can be traced to a variety of incentives offered to the small-scale sector.[31]

Table 5.20 **Trends in Manufacturing Employment, 1961–1991**

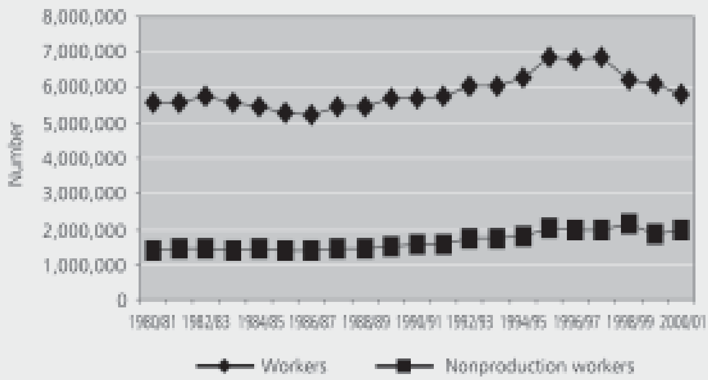
| | Percentage Share | | | Percentage Share | | | Growth Rate | |
|---|---|---|---|---|---|---|---|---|
| **Sector** | **1961** | **1981** | **1991** | **1961** | **1981** | **1991** | **1961–1981** | **1981–1991** |
| Total Manufacturing | 100.0 | 100.0 | 100.0 | | | | 2.1 | 1.3 |
| Household Manufacturing | 55.0 | 32.0 | 23.7 | | | | (0.6) | (1.3) |
| Nonhousehold Manufacturing | 45.0 | 68.0 | 76.3 | 100.0 | 100.0 | 100.0 | 4.2 | 2.3 |
| Factory Manufacturing | 17.4 | 29.1 | 27.0 | 38.7 | 43.0 | 35.0 | 4.7 | - |
| Nonfactory and Nonhousehold Manufacturing | 27.5 | 38.1 | 49.3 | 61.3 | 57.0 | 65.0 | 3.9 | 3.8 |

Source: Ramaswamy (1994).

Third, employment in the organized manufacturing sector in 2001 was 11% lower than in 1997/98. The decline was largely due to declines in the number of workers (production, as opposed to nonproduction, workers) (Figure

5.4).[32] While recent data indicate an increase in the number of workers employed since 2001, the total number of workers employed is still lower than in 1997.

Figure 5.4 **Employment in the Organized Sector**




Source: Nagaraj (2003); Annual Survey of Industries

Fourth, data from the Annual Survey of Industries reveal that the growing use of contract labor, from about 7% of person-days worked in 1984 to around 22% in 1998, compounded the slow growth in formal manufacturing employment. The growth was more marked in the case of public sector enterprises, though in absolute terms private firms did twice as much contracting out (Table 5.21).

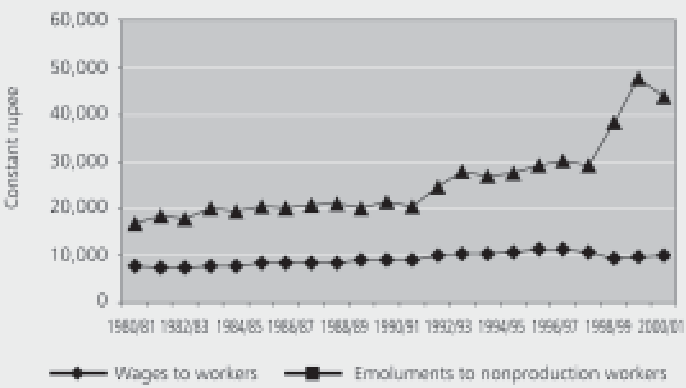
Table 5.21 **Contract Labor as a Percentage of Total Employment, 1984–1998**

| Year | Public | Private | Total |
|---|---|---|---|
| 1984 | 2.9 | 10.1 | 7.0 |
| 1989 | 5.6 | 11.9 | 9.8 |
| 1998 | 10.9 | 29.1 | 21.6 |

Source: Annual Survey of Industries.

Finally, growth in real wages per manufacturing sector worker (production worker) in the last two decades was about 1.1% per year, at a time when per capita income grew more than 3.5% per year.[33] However, the real earnings of nonproduction workers (wages plus other benefits, also known as "emoluments") increased rapidly during this period, increasing the wage inequality in this sector (Figure 5.5). In addition, there has been a decline over time in the share of the workers' wage bill in both value added and output (Figures 5.6 and 5.7), consistent with the possibility of a decline in the bargaining power of workers.[34]

**Figure 5.5 Real Wages and Emoluments**




Source: Nagaraj (2003); Annual Survey of Industries

**Figure 5.6 Workers' Wages as Percentage of Output**


Source: Annual Survey of Industries

Figure 5.7 Workers' Wages as Percentage of Value Added


Source: Annual Survey of Industries

## 5.4 Labor Laws in India

Several important features of India's labor laws are worth noting at the outset. First, under the Indian constitution, legislative matters pertaining to labor and labor welfare are placed in the Concurrent List, with both the central Government and the state government having the power of legislating in these matters. Accordingly the labor-related administrative and enforcement machineries operate at both central and state levels. Central acts have nationwide coverage while state acts have more limited jurisdiction.

Second, a characteristic feature of the regulation of labor laws in India is the overwhelming presence of the state. To that end, an elaborate machinery has been constructed to implement and enforce labor laws, especially those governing industrial relations and wages. This machinery exists at the central and state levels under the Ministry of Labour. Typically the machinery consists of a hierarchy of labor enforcement officers and inspectors headed by the chief labor commissioner (at the center) and labor commissioners (state). Apart from these, there are also specialized administrative apparatuses that mainly deal with welfare, safety, social security, and environmental laws. The industrial dispute adjudication machinery consists of the industrial tribunals and labor courts under the purview of the central and state governments.

Third, the persistent structural dualism of the labor market in terms of the division between the organized (formal) and unorganized (informal) sectors carries over to, and is also at least partly the result of, the regulation of labor markets. India's legislative, administrative, and enforcement machineries are disproportionately targeted toward the organized sector even though it accounts for only around 7% of the labor force and has been in decline since the 1980s.

Other important features of the legislative/regulatory framework in India are: (i) the historical legacy of colonial labor legislation; (ii) a tendency toward legislative proliferation along with weak enforcement; and (iii) a focus on direct employee-employer relationships to the exclusion of other forms of labor relationships such as subcontracting, outsourcing, temporary work, or even fixed-contract employment.

We now turn to a more detailed discussion of these features. We also describe some of the most important labor regulations in India. Our focus is on those labor regulations that lie at the center of a major debate on whether or not labor regulations in India have led to serious rigidities in the operation of labor markets and are contributing to some of the weak labor market outcomes reviewed in the previous section, especially the slow growth of the organized sector. This section closes with some remarks on the recommendations of the Second National Commission on Labour (SNCL) regarding reform of labor laws in India.

### 5.4.1 Labor Legislation in Colonial India: A Brief Overview

State-dominated labor regulations in India are often traced to the "import substitution, planned development" period of post-independence India (1950–1976). However, this view is grossly mistaken. Practically all of the most significant labor laws—Industrial Disputes Act, Trade Union Act, Industrial Employment (Standing Orders) Act, Workmen's Compensation Act, Payment of Wages Act, etc.—were enacted in the colonial period between 1926 and 1947. It can even be argued that state intervention in the labor market originated in early colonial rule and was elaborated in the 19th and early 20th centuries.

The models for such intervention were drawn from English common law and the Masters and Servants Statutes. Two classic forms of such legislative intervention were the Workmen's Breach of Contract Act of 1859 (which itself was a culmination of a series of legislative initiatives dating from the early 19th century curbing free exit and association among workers) and the Plantation Labour Laws of 1860s (which institutionalized the penal contract indenture system in India). The long history of operation of these laws (1800–1926) deeply influenced the character of labor market institutions (e.g., intermediaries, jobber, *sardari* system—all pertaining to different ways of contracting workers) and employment relations (criminalization of free labor). The welfarist and protective aspect of labor regulations are commonly traced to the introduction of the Factory Acts in 1881, which regulated the employment of children and women and hours of work and safety provisions. The Factory Acts were widely believed to have been introduced under pressure from the Lancashire cotton manufacturers to curtail India's competitive advantage in cheap labor. However, implementation and enforcement remained weak and without teeth till well into the 1920s.

The next spurt of legislative intervention happened in the post–World War I period (1920–1946) when India joined the International Labour Organization and the statutory legacy of criminal breach of contract and penal contract indenture was abolished in 1926. The same year saw the enactment of the Trade Union Act, which legalized trade unions and gave immunity against civil and criminal action. The Workmen's Compensation Act of 1923 was also passed in this phase, as were the first Maternity Benefit Acts and Payment of Wages Act. A spurt of industrial action in the late 1920s led to the passage of the Trade Disputes Act of 1929 with provisions for arbitration and adjudication through industrial courts under state authority. The high point of renewed state intervention in labor relations was reached during World War II when, under the Defence of India Rule 81-A, industrial disputes were subjected to compulsory adjudication, and strikes and lockouts were banned while the disputes were pending.[35] Interestingly, the passage of the Industrial Disputes Act of 1947 retained the relevant sections of the Defence of India Rules and elaborated on the adjudication machinery of the Trade Disputes Act. The Trade Union Act, the Industrial Employment (Standing Orders) Act of 1946, the Minimum Wages Act of 1948 (initiated in 1946), and the Industrial Disputes Act of 1947 were the basic pillars of the interventionist architecture of labor relations in India.

This account of the historical development of labor laws and regulations in the colonial period indicates the following:

1. State interventionism had become entrenched in industrial relations and employment relations and had adapted to a changing economic and ideological environment.
2. The roots of both "protective" and regulatory aspects of the labor policy are to be found in the developments in the colonial period.
3. The dualism of the labor market in the form of the organized/formal and the unorganized/informal sector already presupposed the emerging labor policy scenario.

### 5.4.2 Labor Laws Since Independence

At the end of World War II, a new orthodoxy of economic management was born. It envisaged sustained economic growth if full employment could be maintained by raising effective demand. Financially, it meant a budget in deficit; in the labor market it meant that labor policy should be directed toward encouraging formal and long-term employment relationships and contracts and providing access to social security. The social engineering role of the state in planned development and a policy of import substitution industrialization led to the massive growth of public sector industries in key areas such as iron and steel, power, heavy engineering, shipping, railways, and public transport. Major services sector industries such as insurance and banking also came to be owned by the state. Allied to this was the substantial expansion of state activities and consequent expansion of the bureaucracy at both central and state levels. The emergence of the state as a major employer of labor accentuated the already strong state involvement in the labor market.

The legislative framework for managing labor relations established at the time of independence has not changed its basic orientation in the post-independence period. This, however, does not mean that no changes were made over time. The pressures for these changes emerged from two sources, which now assumed great importance. A first source of change was the increasing juridification of labor relations and expansion of judge-made laws.[36] A second source was the changing socioeconomic ideologies of the regime, reflected in a greater welfare orientation and a tendency toward social legislation. These changes typically led to:

1. Periodic amendments to the basic labor laws (for example, amendments to the Industrial Disputes Act, Trade Union Act, and Industrial Employment Acts).
2. New legislative initiatives (for example, the Contract Labour Act of 1970, the Equal Remuneration Act of 1976, the Bonded Labour Act of 1976, the Child Labour Act of 1986, and several pieces of social security and welfare legislation). These new legislative initiatives were bunched around the 1970s and early 1980s. In addition, there was an increasing tendency for states to legislate for a specific industry or sector.

Although the basic orientation of labor laws has remained the same since independence, labor laws of many kinds have proliferated such that there are now 47 central labor laws and no fewer than 200 state laws. The laws are of five types: industrial relations laws, welfare and safety laws, social security laws, wage laws, and special laws for different sectors and categories. The aim and coverage of major central labor laws in each of these categories are given in Appendix 5.1 (following this chapter).

The tendency toward legislative proliferation has led to severe problems of definitional incompatibilities and administrative overlap and inefficiencies, all of which have created a judicial nightmare. One major fallout of all of this has been considerable delay in the adjudication of industrial disputes, leading to the clogging of the labor adjudication system.

The need to codify and rationalize labor laws has been on the anvil for several years. The most comprehensive proposal is that of the National Labour Law Association's Indian Labour Code (1994). Additionally, the definitional, jurisdictional, and administrative incompatibilities of labor laws and their harmonization and rationalization have been major issues taken up for review by the Second National Commission on Labour (Ministry of Labour 2002).

At the same time, there is considerable debate regarding the efficacy and effects of some of India's labor laws not only on employment and wage outcomes, but also on industrial performance. Here we discuss in detail the evolution of certain key laws that are currently at the heart of the debate on labor market rigidities. We provide an account of the interaction between statutory laws and the judge-made case laws that have shaped the legal framework of labor and employment relations in India. A brief account of the enforcement of these laws is also provided. (Box 5.3 discusses some gender related issues pertaining to labor laws at the end of this subsection.)

### *Industrial Disputes Act*

The Industrial Disputes Act was promulgated in May 1947, even before the formal independence of India. The act contains 40 sections, spread over five chapters and five schedules. It provides the machinery and procedure for the investigation and settlement of industrial disputes. The law, except for some provisions, applies to all industries regardless of size.

The act is in direct lineal descent of two laws: the Trades Disputes Act of 1929 and the Defence of India Rules No. 81-A. The former prohibited strikes and lockouts in public utilities and specified the process of adjudication by the establishment of a board of conciliation or a court of enquiry. The latter introduced the system of compulsory adjudication and enforcement of awards by the adjudicators. Two new initiatives were added to the act, namely, the institution of industrial tribunals and the labor courts, on the one hand, and the provision of works committees, on the other. The works committee was to be instituted in all establishments employing more than 100 workers. The government, either on its own or on application by either party to a dispute, is empowered to refer any industrial dispute to the labor court or industrial tribunal. Conciliation through designated conciliation officers is compulsory for all disputes of public utility services and optional for other industrial establishments. The appropriate government can refer the dispute for adjudication to the labor court and tribunals and declare any industry a public utility service. Strikes and lockouts are prohibited while conciliation and adjudication are pending, and are illegal without notice in public utility services. The awards given by the adjudicator are enforceable within 30 days of publication of the award.

The act, apart from laying down procedures for settlement of disputes, also lays down the conditions under which layoff, retrenchment, and closure of an industry could take place and the appropriate level of compensation in each case (dealt with in Section 25 of Chapters V and V-B).[37] The act also prescribes the terms under which employers may change certain "conditions of service" (dealt with in Sections 9-A and 9-B of Chapter II-A).

The act was amended several times in the light of experience gained in its actual working, case laws, and the industrial relations policy of the Government. It was amended in 1956, 1964, 1965, 1971, 1972, 1976, 1978, 1982, and 1984. Since 1984 there have been no amendments. The major changes introduced were as follows:

1. The 1964 amendment made the notice of termination of an award by adjudication conditional on the approval of the majority of those working in the establishment.
2. The 1965 amendment allowed disputes raised by individual workers to be raised as industrial disputes without the mediation or sponsorship of a union. This was incorporated in the Industrial Disputes Act rules in 1968 and considerably intensified the juridification of employment relations and increased the number of cases in the labor courts. The act also provided for increased punishment for continuous disregard of awards and settlements by tribunals.
3. The 1971 amendment explicitly empowered the industrial tribunals to order the reinstatement of a dismissed worker. This amendment followed the *Indian Iron and Steel Co vs. their Workmen* case of 1958, where the Supreme Court had objected to such orders.
4. The 1972 amendment required any industrial establishment employing more than 50 persons to give 60 days' notice to the appropriate government before the closure of the industry, stating the reasons for the closure.
5. The 1976 act inserted a special Chapter V-B, which made prior approval of the appropriate government necessary in the case of layoffs, retrenchment, and closure in industrial establishments employing more than 300 workers. This followed the observed trend of large-scale closures and layoffs in the preceding years. This provision is often seen as causing rigidity in the labor market.
6. The 1982 amendment laid down the procedure for obtaining government permission for closure with reasons for assent or refusal to be recorded in writing and after adequate hearing of the affected parties. This followed the Supreme Court judgment in the *Excel Wear Case* (1979), which ruled that refusal of permission for closure was an unreasonable restriction on the fundamental right to carry on business. The amendment also lowered the limit of the employment size to 100 for mandatory permission before closure, and increased the number of days of notice before closure to 90 days. A separate schedule of unfair labor practices by the employers, trade

unions, and workmen was inserted in the act and penalties for these were provided. The amendment also specifically excluded from the definition of "industry" such institutions as hospitals and educational and research institutions, and made the law inapplicable to government institutions performing sovereign functions and specific institutions such as atomic energy, space, and defense research. This followed after the Supreme Court judgment of *Bangalore Water Supply and Sewerage Board* (1978) had widened the definition of industry to include all establishments producing goods and services with employer-employee cooperation.

7. The 1984 amendment basically redrafted the 1982 act taking into account the objections raised in rulings of several high courts on the issue of the Chapter V-B provision for mandatory permission for retrenchments and layoffs. Thus layoffs, retrenchments, and closures in establishments having more than 100 employees now followed the same procedures for seeking permission from the government.

As for the "conditions of service rules," Section 9-A of the act requires that employees be given at least 21 days' notice before modifying wages and other allowances, hours of work, rest intervals, and leave. According to some observers, including the Government's Task Force on Employment Opportunities: "The requirement of a 21 day notice can present problems when units have to redeploy labor quickly to meet the requirement, for example, for time bound export orders." (Planning Commission 2001, p. 7.8). Others have also raised the possibility that this section of the act, along with certain provisions of the Industrial Employment (Standing Orders) Act (see below), can constrain industrial restructuring and technological upgrading.

This brief review of the history of the Industrial Disputes Act, considered the fulcrum of the industrial relations system in India, indicates the following:

1. A state-oriented compulsory adjudication system is the basis of the industrial relations system in India. The wide-ranging discretionary power of the state is crucial in structuring the balance of force between capital and labor. This is reflected in the amendments to legislation, which while restraining capital (Chapter V-B) also seeks to restrain labor (by curbing unfair labor practices, defining illegal strikes, and having the right to declare an industry a public utility).
2. The tendency for excessive juridification of work relations has militated against the development of a healthy collective bargaining system. It has also led to increasing resort to the adjudication machinery and excessive delays.

The degree to which the adjudication machinery is overburdened with industrial dispute cases is obvious. Up to 2000, around 533,000 cases were pending in the labor courts under the purview of the state governments. Of these, around 29,000 cases were pending for more than 10 years. In all the major industrialized states, nearly 10% of all pending cases had been pending for more than 10 years (Shenoy 2004). Tables 5.22 and 5.23 give more details.

What impact does this machinery of adjudication and its delay have on employees and employers? Very few studies track the impact of adjudication delays. Saini (1995), in a detailed study of the industrial adjudication system in a major industrial cluster (Faridabad, a suburb of Delhi), found that adjudication took an average of 3 years. Of the 195 collective disputes in a 5-year period, 40% (76) were abandoned by workmen because of delays and an inability to sustain the adjudication procedure. In 37 of the 48 cases that went through full adjudication, workers got no relief. The delay obviously affected the workers more and favored the employers. In most of the cases settled, workers were forced to settle after the unions raising the disputes were dislodged, union leaders dismissed, and puppet unions or work committees were created to enforce settlement (Saini 1995).

Table 5.22 **Number of Cases Pending in Labor Courts, by State (as of 10 May 2000)**

| State | No. of Cases Pending | No. of Cases Pending for More Than 10 Years |
|---|---|---|
| Assam | 189 | 138 |
| Bihar | 5,200 | 566 |
| Delhi | 28,837 | 2,342 |
| Gujarat | 133,916 | 8,616 |
| Kerala | 3,450 | 63 |
| Karnataka | 17,457 | 2,924 |
| Maharashtra | 142,345 | 11,508 |
| Madhya Pradesh | 89,341 | — |
| Punjab | 14,784 | 110 |
| Rajasthan | 20,066 | 775 |
| Tamil Nadu | 21,713 | 150 |
| Uttar Pradesh | 22,539 | 10,303 |
| West Bengal | 2,225 | 283 |
| Total | 533,038 | 28,864 |

— Not available.

Source: Ministry of Labour, Government of India.

Table 5.23 **Pendency/Disposal of Cases in Central Government Industrial Tribunals,2000–2003**

| Year | Registered | Pending | Disposed |
|---|---|---|---|
| 2000 | 11,791 | 10,924 | 867 |
| 2001 | 15,132 | 13,329 | 1,803 |
| 2002 | 13,033 | 11,376 | 2,057 |
| 2003 | 12,674 | 11,828 | 846 |

Source: Ministry of Labour, Government of India.

### *Contract Labour (Regulation and Prohibition) Act*

The Contract Labour (Regulation and Prohibition) Act regulates the employment of contract labor in certain establishments. It also provides for the abolition of contract labor in certain circumstances. The act applies to all establishments employing at least 20 workmen as contract labor on any day in the preceding 12 months, and to every contractor employing 20 or more contract workers in the same period. The act provides for the registration of establishments of the principal employer employing contract labor and the licensing of contractors. The principal employer must provide facilities such as rest room, canteens, first aid, etc., if the contractor fails to do so. The principal employer must also ensure that the contractor pays the wages due to the laborers.

Under Section 10 of the act, the appropriate government is empowered to abolish contract labor after consultation with the advisory board (central or state) in any process, operation, or other work that is incidental to or necessary for the trade, business, manufacture, or occupation that is carried on in the establishment, is of a perennial nature, and is carried out by regular workmen in the same or similar establishments.

The Contract Labour Act was designed to protect contract workers from exploitation. Its chief aim was to regulate, and in certain instances abolish, contract labor. The act, however, gave rise to industrial disputes over the regularization of contract labor. The bulk of the disputes arose in cases of public sector undertakings or corporations. In a major judgment, *Gujarat Electricity Board vs Hind Mazdoor Sabha* (1995), the Supreme Court ruled that the employment of contract labor in public sector undertakings was an unfair labor practice and recommended its abolition and the absorption of contract laborers as regular workmen. In the Supreme Court judgment, *The Air India vs United Labour Union (1996)*, the court directed that in a process, operation, or other work where contract labor is prohibited, the contract laborers engaged in the process are automatically to be absorbed as regular workers. Subsequently, however, a five-judge constitutional bench quashed this ruling in the case of *SAIL vs United Waterfront Workers (2001)*.

However, despite the continued dispute on the regularization of contract labor, there has been no letup in the increasing "contractualization" of work. As noted in the previous section, contract labor as a percentage of employment in manufacturing increased from 7% in 1984 to 21.6% in 1998. The latest available figures (2001) on the Census Sector (mainly establishments in the industry sector with more than 100 employees) show the huge prevalence of contract workers in Andhra Pradesh (64%), which recently (in 2003) passed a law permitting temporary contract labor employment in core activities of firms and widening the scope of noncore activities. The recent trends in the enforcement of the Contract Labour Act have shown very low and declining levels of inspection (as a proportion of prosecutions and convictions) under the act in the central sphere (Table 5.24). This trend is occurring even as there has been a large increase in the number of contract labor employed in different occupations.

Table 5.24 **Enforcement of the Contract Labour (Regulation and Abolition) Act of 1970 (Central Sphere), 1985–2002**

| Year | No. of Inspections | No. of Prosecutions | No. of Convictions | No. of Contract Laborers Covered by Licenses |
|---|---|---|---|---|
| 1985/86 | 9,217 | 5,956 | — | — |
| 1995/96 | 4,653 | 3,705 | 2,770 | 489,776 |
| 2001/02 | 6,052 | 3,671 | 2,071 | 709,030 |

— Not available.
Source: Annual Reports, Ministry of Labour, Government of India.

### *Trade Union Act*

The Trade Union Act facilitates unionization in both the organized and unorganized sectors. The act used to allow any seven workers in an enterprise to form a trade union and register it. Half of the trade union officers could be outsiders. An amendment of the act in 2001 has raised the minimum number of workers that can form a trade union in the case of enterprises with 100 or more workers. In such enterprises, the minimum has been set at 10% of the total number of workers up to a maximum of 100 workers. Additionally, one-third or five officers of the trade union, whichever is less, are permitted to be outsiders in the case of organized sector enterprises as per the 2001 amendment.

The law is supported by the constitutional right to freedom of association. The right to register a trade union, however, does not mean that the employer must recognize the union—there is, in fact, no nationwide law that provides for the recognition of trade unions and consequently no legal compulsion for employers, even in the organized sector, to enter into collective bargaining.

The course of collective bargaining was influenced in 1948 by the recommendations of the Fair Wage Committee (1948) regarding the concept of a minimum, fair, and living wage. These three wage levels were defined and it was pointed out that all industries must pay the minimum wage and that the capacity to pay would apply only to the fair wage, which could be linked to productivity.[38] This gave a boost to collective bargaining; many organized sector trade unions achieved reasonably satisfactory indexation and a system of paying an annual bonus. This later became law, and a thirteenth monthly wage must be paid as a deferred wage to all those covered by the Payment of Bonus Act. The minimum bonus payable is 8.33% and the maximum is 20% of the annual wage.

### *Industrial Employment (Standing Orders) Act*

In addition to Chapter V-B of the Industrial Disputes Act, additional provisions for job security among individual workers may come from the operation of the Industrial Employment (Standing Orders) Act. This act requires all employers with 100 or more workers (50 in certain states) to inform workers of the specific terms of their employment. While the act seeks to make labor contracts complete, fair, and legally binding, it has some features that may interfere with quick adjustments to changing conditions. In particular, workers' consent is required to modify job descriptions or to move workers from one plant to another, in response perhaps to changes in the market. The problem, according to some analysts, is that the workings of India's Trade Union Act make it difficult to obtain such consent. Since the Trade Union Act has no provisions for union recognition (for example, via a secret ballot), the result has been multiple unions (within the same establishment) with rivalries common across unions so that a requirement of workers' consent for enacting changes "can become one of consensus amongst all unions and groups, a virtual impossibility" (Anant 2000, p. 251).

Box 5.3 **Labor Laws and Gender**

All the major central labor laws are equally applicable to women workers. The Equal Remuneration Act was passed in 1976, providing for equal pay for men and women workers for the same or similar work. Under this law, no discrimination is permissible in recruitment and service conditions except where the employment of women is prohibited or restricted by law. The enforcement of the provisions of this law is regularly monitored by the central Ministry of Labour and the Central Advisory Committee. In respect of an occupational hazard concerning the safety of women in the workplace, in 1997 the Supreme Court of India announced that sexual harassment of working women amounts to a violation of gender equality rights. As a logical consequence, it also amounts to a violation of the right to practice any profession, occupation, and trade. The judgment also laid down the definition of sexual harassment, the preventive steps, the complaint mechanism, and the need to create awareness of the rights of women workers. Employers have already begun to implement these guidelines by amending the rules under the Industrial Employment Standing Orders Act of 1946.

### 5.4.3 Trends in Industrial Relations and Industrial Conflict

Industrial relations between 1947 and 2004 mirrored the broad pattern of economic policy and growth outlined in the first section. It may be useful to describe the changes in four broad temporal phases: 1947–1965, 1966–1977, 1980–1991, and 1991 to the present drawing upon Bhattacharya (1999).

The first phase (1947–1965) was characterized by the development of state-led industrialization, based on import substitution and employment-intensive public sector enterprises. This period witnessed the rapid growth of unionization. The number of unions grew from 4,623 in 1951 to 11,614 in 1962. Their membership also trebled during this period. The public sector emerged as a major arena for unionization. There also developed a strong tendency toward a state-sponsored trade union movement. The tendency toward collective bargaining was effectively curbed as tripartitism rather than bipartism became the norm (Ramaswamy 1984). This was the phase when wage setting was conducted through the setting up of wage boards for several key industry sectors. This phase was marked by comparative peace and relatively low levels of industrial disputes.

The second phase (1966–1977) coincided with severe industrial stagnation and low rates of employment growth. This phase saw a dramatic increase in the levels of industrial disputes, owing mainly to the tightening of the labor market. Both strikes and lockouts increased, as did the number of person-days lost due to disputes. Centralized industrial relations structures showed signs of crisis. Several wage boards stopped functioning and decentralized bargaining started to become important. This was also the phase when several states (Maharashtra, Gujarat, Madhya Pradesh, Rajasthan, and Uttar Pradesh, among others) enacted special labor laws to intervene in and control industrial conflict through laws defining trade union recognition and defining unfair labor law practices. There was also some fractionalization in the trade union movement. This phase reached its climax in the massive All India Railway Strike in 1974 and the subsequent clampdown during the emergency (1975–1977). It is not without significance that the first major central amendment to the Industrial Disputes Act 1947 was made during the emergency, introducing the provision for prior permission for retrenchment and closures precisely at the time when the central Government had smashed the railway strike and clamped down severely on rising industrial conflict.

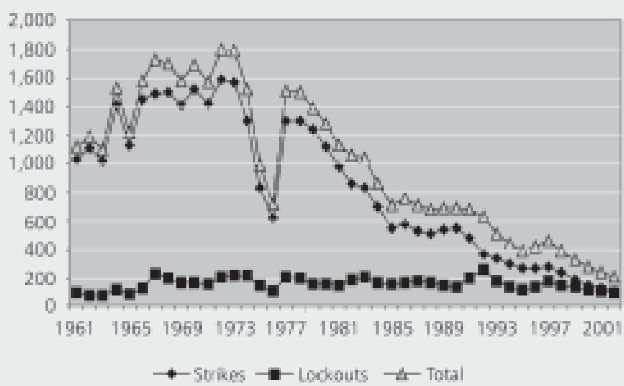
The third phase (1980–1991) coincided with the start of liberalization and the gradual withdrawal of the state from economic activities and industrial relations. No overt changes in the labor law and labor market policies were made (except for the 1982 and 1984 amendment to the Industrial Disputes Act, which lowered the ceiling on the establishment size for which permission for closure and retrenchment would be required to 100 workers and introduced the unfair labor practices schedule), but there emerged significant subterranean changes affecting the industrial relations system at the level of individual firms, specific industries, and regions. As noted earlier, it was a period of jobless growth—"the best decade for economic growth but the worst decade in terms of employment generation" (Ghose 1992). In this period, one can see the beginning of a trend where firms engaged in the production of consumer nondurables began subcontracting and outsourcing their production to the unorganized sector (Ramswamy 1999, Banaji and Hensman 1990). The productivity gains in manufacturing were now sought to be captured by the strengthening of independent plant-level unions. While earnings per worker increased substantially in the organized manufacturing sector, it was achieved by intensifying labor use, i.e., increasing the number of person-days per worker (Nagaraj 1994). Earning differentials between decentralized union workers in the modern sector widened while the centralized unions in the traditional sunset sectors saw their earnings decline. Lockouts emerged as an important employer strategy for beating down wage demands. The declining power of unionism in the sunset industries was reflected in the longest-ever strike in India (Bombay textile strike of 1982), which ended in utter failure. It is interesting to note that the state stayed out of this dispute, marking a new phase in the industrial relations system.

The final phase (1991 to the present), coinciding with a vigorous acceleration of economic reforms, has seen a greater decline in public sector employment and a continued decline in the power of centralized unions. The erosion of the centralized industrial relations system has gone apace. This is reflected in the continued decline in strikes (Figure 5.8) and the number of workers involved in disputes—at least until the late 1990s (Figure 5.9)—and the relatively low levels of person-days lost because of strikes (Figure 5.10). Additionally, the person-days lost because of lockouts now outstrip losses due to strikes (Datt 2004). In an interesting analysis of the industrial disputes and lockouts in West Bengal, Datt found that most of the lockouts ended with a bipartite settlement leading to the downsizing of the workforce and a striking absence of state intervention. It must be noted that West Bengal has been ruled by a communist since 1978, a clear indication that the background rules of the industrial relations system have changed.

Overall, the trends in the industrial relations system in the post-independence period have seen a change from a state-dominated industrial relations system and centralized wage bargaining structure to a more pluralistic and decentralized industrial relations system. This has been accompanied by a sharp decline in the level of industrial disputes and strikes, which were the main feature of the 1947–1980 system of industrial relations and conflict. These long-term trends can be seen in the graphical illustration of the indices of industrial conflict depicted in Figures 5.8, 5.9, and 5.10.

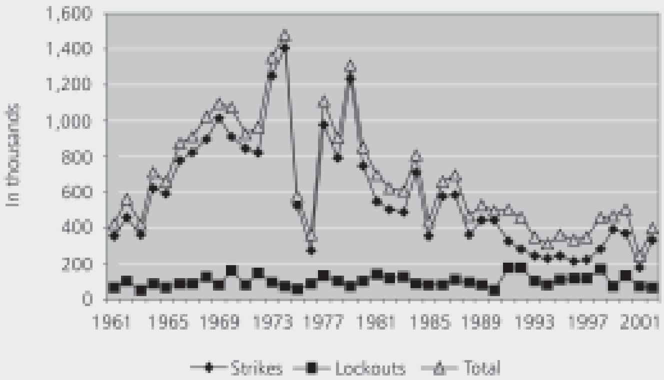
These long-term trends, especially the move to a more decentralized industrial relations system, can also be seen as a tendency among trade unions to stay away from the more politically oriented Central Federation of Trade Unions (Ministry of Labour 2002). Additionally, while the number of trade

Figure 5.8 Number of Disputes, 1961–2002



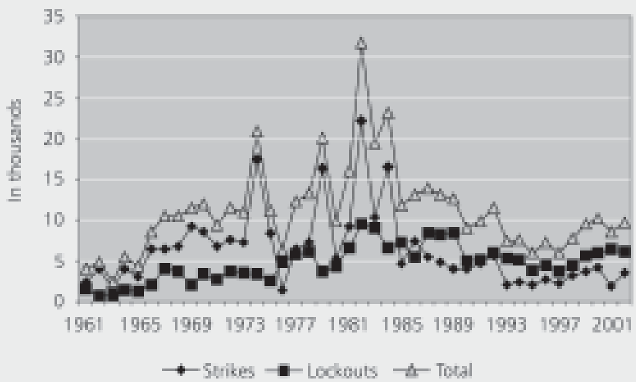

Source: Ministry of Labour, Government of India.

Figure 5.9 **Number of Workers Involved in Disputes, 1961–2002**




Source: Ministry of Labour, Government of India.

Figure 5.10 **Number of Person-Days Lost in Disputes, 1961–2002**




Source: Ministry of Labour, Government of India.

unions submitting returns increased in the 1980s and 1990s, the average membership per union submitting returns was lower in the late-1990s than in the mid-1980s. While about 7,718 unions submitted returns and averaged around 831 workers each in 1985, the corresponding numbers in 1997 were 9,918 unions and 743 workers.[39, 40]

### 5.4.4 Labor Laws and the Labor Market Rigidity Debate

The debate on labor market reforms in India has centered on the argument that India's labor laws have been excessively tilted toward workers in the organized sector, especially in industry. This has produced, it is argued, serious rigidities in the operation of labor markets and adverse consequences for the performance of the organized industry sector. Three major effects are presumed to result from these rigidities induced by protective labor laws.

1. **Employment effect.** Recent studies have argued that labor market rigidities, induced by labor laws that effectively guarantee job security, have hindered employment growth since firms have a strong disincentive to hiring additional labor, which can not be laid off easily (see, for example, Fallon and Lucas 1991, Khan 2005, and Nath 2005).
2. **Labor substitution effect.** Disincentives to hiring workers lead firms to gravitate toward capital-intensive production processes and sectors. As a result, there is an artificially induced substitution of abundant labor with scarce capital (see, for example, Datta-Chaudhuri 1996).
3. **Industrial disputes effect.** By strengthening the bargaining power of formal sector labor or by increasing the discretion given to the government in deciding industrial disputes, India's labor laws can make industrial disputes more likely (see, for example, Besley and Burgess 2004).

The major rigidity argument revolves primarily around the effects of the Industrial Disputes Act and the Contract Labour Act. The specific provisions that are under a cloud are the amendments made to the Industrial Disputes Act (Chapter V-B) in 1976 and 1984, wherein any industrial establishment employing more than 100 workers must apply to the Government for permission before resorting to layoff, retrenchment, or closure. Employers resorting to any of these forms without permission are acting illegally and workers are entitled to receive wages for the period of illegality. In the Contract Labour Act, the specific target is Section 10 of the act, which empowers the Government to prohibit the employment of contract labor in any industry, operation, or process.

To a lesser extent, Section 9-A of the Industrial Disputes Act and the service rules provisions of the Industrial Employment (Standing Orders) Act—which pertain to procedures that must be followed by employers before changing workers' hours of work, nature of work, etc.—are believed to constrain firms from responding quickly to changing demand conditions, industrial upgrading, and new technologies. Finally, it is believed that the Trade Union Act has played a role in facilitating the rigidities induced by the other laws as described above for Section 9-A of the Industrial Disputes Act and the Industrial Employment (Standing Orders) Act.

How important have these provisions of labor laws been in creating rigidities? Much of the empirical literature on this issue has examined the impact of the amendments to the Industrial Disputes Act. A widely cited study that first examined that impact is that by Fallon and Lucas (1993). These authors used data from the Annual Survey of Industries to estimate dynamic labor demand equations on the basis of a cost minimization framework for 36 industries from 1959/60 to 1981/82. Fallon and Lucas found no change in the speed at which firms adjust employment levels in response to shocks to labor demand after the 1976 amendment to the Industrial Disputes Act. They did, however, find a drop in labor demand after 1976, which was significant at the 5% level in 11 out of 35 industries. The average decline in labor demand, according to Fallon and Lucas, was 17.5%.

But these results have been contested. As Bhalotra (1998) points out, the stated decline in labor demand was computed by averaging the relevant coefficients of estimated labor demand over the 25 industries in which a negative coefficient was estimated at the 25% level of significance, as opposed to only those industries for which the negatively signed coefficients were significant at more conventional levels of significance. Even ignoring this issue, a puzzling feature of Fallon and Lucas' results is that the 1976 amendment affects labor demand but not the speed of adjustment of employment. Presumably, if the new labor regulations had significant bite, firms would take longer than before to adjust employment levels in response to unanticipated shocks to labor demand.

An alternative approach to measuring the impact of firing restrictions is that of Roy (2002). In particular, Roy uses annual data on accession and separation rates for "directly employed regular" workers from 1963 to 1992. While accessions include additions to the workforce (including those reemployed or transferred from other establishments under the same management), separations are made up of quits by employees and layoffs at the instance of employers (with the data available not allowing separations to be broken down into these two components).

Roy models accessions and separations in terms of a number of economic variables including "planned employment growth." She notes that her model's specification tries to uncover the response of separation rates to "desired" changes in employment. A key challenge is to derive estimates of planned employment growth. Roy points out that earlier literature for developed countries relied on estimates of dynamic factor demand functions, which were used to derive desired employment levels, given factor prices and other determinants of employment demand. Data limitations prevent Roy from estimating such factor demand functions for regular workers alone. Instead, Roy models employment growth as determined by output growth and growth in labor cost. She acknowledges that this is a simple characterization of labor demand and therefore that her results should be taken as "indicative."

Roy finds that the pre-1976 era is "characterized by significant responsiveness of worker turnover to employment decisions." Both accessions and separations are positively associated with planned growth and employment. This suggests that employment growth was accomplished through both hiring and separations, with the former outstripping the latter. After 1976, accession and separation rates are negatively associated with planned employment growth. Finally, neither accession nor separation rates are significantly associated with planned employment growth in the post-1984 era. Roy considers this finding important as it suggests that employee turnover decisions have been significantly affected by the amendments made in 1976 and 1982. In particular, the post-1984 results appear to indicate a significant decline in flexibility in the labor market (in hiring and firing decisions).

An even more recent study on the impact of the Industrial Disputes Act, and one that has attracted considerable international attention, is that of Besley and Burgess (2004). These authors exploit state-level amendments to the Industrial Disputes Act over 1958–1992, and classify legislative changes across major states as pro-worker, neutral, or pro-employer. These legislative amendments are then used in a regression analysis of a variety of outcomes in the formal manufacturing sector, including employment, output, and investment. Besley and Burgess find that pro-worker labor regulations have had a negative impact on employment, output, and investment in formal manufacturing. The impact can be large. The most dramatic case is that of the state of West Bengal. Besley and Burgess' results indicate that, had West Bengal not passed any pro-worker amendments, formal employment in its manufacturing sector would have been 23% higher than its 1990 level, and formal manufacturing output would have been 24% higher. The results suggest that large gains may be had from legislative changes that make the Industrial Disputes Act more employer-friendly.

Several points need to be kept in mind, however, when interpreting the results of these studies and the arguments of those who hold that labor regulation–induced rigidities are the key to understanding the lackluster performance of India's organized sector.

First, reading off directly from legal statutes to measure rigidities, as Besley and Burgess have done, could be misleading. The effect of laws is translated into labor market outcomes indirectly through a range of intermediate factors such as the enforcement environment and cultures of governance and compliance. Changes in these intermediate factors could very easily deflect or nullify the presumed effect of statutes.[41] Such factors could explain some puzzling features of Besley and Burgess' coding of various states' labor regulations. A case in point is the coding of Maharashtra and Gujarat as pro-worker states and Kerala as a pro-employer state. Such a coding is puzzling when one takes into account the industrial records of these three states, the perceptions of investors, the Left-leaning nature of successive governments in Kerala, and the results of a World Bank study on regulatory bottlenecks in the operations and investments of manufacturing firms across 10 states (World Bank 2003). For example, a question on "overstaffing"—i.e., how the optimal level of employment would differ from current employment, given the current level of output—indicated that while overstaffing was present in all states, it was lowest on average in Maharashtra and Gujarat.[42] Moreover, even if amendments to the Industrial Disputes Act have been pro-employee in these two states, their enforcement may have been weak. In particular, the study reports that small and medium enterprises receive twice as many factory inspections a year in poor-climate states (of which Kerala is one) as in the two best-climate states of Maharashtra and Gujarat.

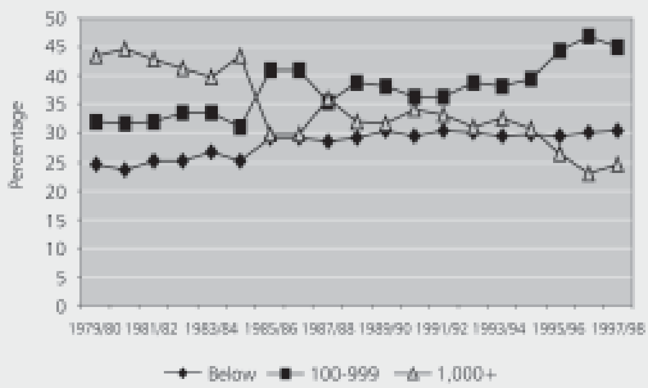
Second, the results of other studies suggest weak linkages between labor regulations and industrial outcomes. On the basis of surveys of industrial firms, Sharma and Sasikumar (1996) studying 233 manufacturing firms in the Ghaziabad and Noida industrial cluster found that neither employment growth nor fixed capital investments of firms were constrained by labor laws. Similarly, a detailed investigation of a sample of 1,307 firms across 10 major states and across all size classes and manufacturing industry groups found little evidence of differences in employment growth or fixed capital investment due to the effect of labor laws (Deshpande et al. 2004).

At a more aggregate level, one can also find evidence that appears to weaken the validity of the three presumed rigidity effects mentioned above, namely, employment effect, labor substitution effect, and industrial disputes effect. Consider the industrial disputes effect first. Contrary to the presumption of labor legislation contributing to a rise in disputes, the data indicate a generally secular decline in both the number of disputes and person-days lost because of disputes, as noted earlier. This trend has been all the more pronounced since 1984, when labor regulations were tightened in a pro-worker direction. Moreover, since 1990 person-days lost because of strikes have consistently been below those lost because of lockouts.

Regarding the employment effects of the labor laws, a recent comprehensive study of manufacturing sector employment growth shows two contrasting trends in manufacturing employment since the 1980s (Goldar 2002). Organized sector manufacturing experienced a decline in 1983–1988 and an acceleration in the 1994–1997 period. The decline was seen as an effect of restructuring and downsizing. This was in contrast to unorganized sector manufacturing, which grew in 1983–1988 but declined in 1994–1997. The study also reports that both employment growth and employment elasticities grew significantly in the 1990–1997 period in organized manufacturing in spite of all the "protective" labor legislation.

Additionally, if labor laws have a rigidity effect it should be visible in the shifting composition of employment in the various size classes as they affect the size class of establishments with 100 or more workers. Using Annual Survey of Industries data for the period 1973/74 to 1997/98, Figures 5.11 and 5.12 below graph the percentage distribution of total employment and fixed capital in size classes below 100, 100–999, and 1,000+ workers. What is evident in these two figures is that the expected compositional shifts are not visible. What we see is that the 100–999 size class has increased (as a percentage of total employment) much more than the below-100 size class. The presumed deceleration of employment seems valid only in the case of 1,000+ size class employment. It is possible that the employment decline of 1,000+ size establishments is due less to the labor laws than to the substantial restructuring of large public sector units and traditional manufacturing industries (cotton textiles, jute manufacturing, steel and engineering). Thus, these data do not seem to support the presumed employment effect of the labor laws.

**Figure 5.11 Distribution of Workers by Employment Size in Organized Manufacturing, 1979/80 to 1997/98**

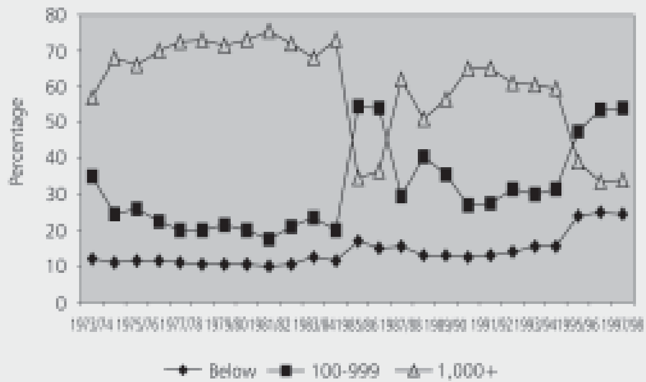



Source: Annual Survey of Industries.

Similarly, the composition of fixed capital investment by employment size class also does not show much difference in growth patterns between the below-100 and the 100-and-above class. However, it is clearly evident that there is a strong inverse relation between the 1,000-and-above and the 100–999 size class. Thus, the major shifts in fixed capital distribution have taken place in these two size classes.

Third, and more generally, it would be overstating the case if we were to attribute the lack of flexibility in organized employment entirely to labor laws. A good part of the explanation has also to do with rigidities in other dimensions of industrial and economic policies. Anant and Goswami (1995)[43] provide a detailed case study that brings out the interplay of rigidities in banking, land and labor laws, and industrial licensing in causing industrial sickness. While a number of these rigidities have been dealt with over the last decade or so of reforms, there are still many unreformed areas.

**Figure 5.12 Distribution of Fixed Capital by Employment Size in Organized Manufacturing, 1973/74 to 1997/98**




Source: Annual Survey of Industries.

**Land and Land-Related Laws.** One argument made against labor laws is that they discriminate against large firms. We noted earlier that between 1973 and 1997 there was a reduction in the share of factories employing 1,000+ workers in total employment and capital stock. A major contributor to this decline was the decline in the large composite textile mills in Bombay and Ahmedabad. As Anant and Goswami have pointed out, these enterprises were often sitting on a considerable amount of vacant land in the factory premises. However, the operation of urban land ceiling laws and other municipal regulations meant that the factories were effectively prevented from using this resource effectively, thus depriving the companies of what could have been a valuable source of capital. These laws therefore posed a barrier to the effective restructuring of the companies and, hence, to the continued viability of large employers. What is not often recognized is that in a number of economic sectors that include manufacturing, trade, and construction, land is an essential complement to labor. Rigidities and imperfections in the market for land translate into poor and low-quality demand for labor.

**Problems with Winding-Up and Insolvency Laws.** Weaknesses in the legal regime for insolvency and bankruptcy were discussed in Anant and Goswami and subsequently elaborated on in reports of the Eradi Committee and the Standing Committee on International Financial Standards and Codes (Reserve Bank of India 2002). The weak regime has effectively prevented companies from closing down, locking up valuable assets in long-drawn-out litigious court proceedings. These delays hurt workers as their dues are subject to court orders, and the inability to recover loans raises the cost of lending to enterprises. Once again the greater burden is put on larger corporate enterprises. As smaller entities are not subject to the vagaries of this procedure as part of the ongoing reform agenda, the law was amended in 2002 but its implementation is still being held up by litigation.

**Other Impediments.** In addition, there are impediments to the development of organized manufacturing because of the weakness in infrastructure, reservations for small-scale enterprises, and the fragmented localized markets for goods. The effect of these impediments has been to constrain growth in the organized sector.

Indeed, a detailed examination of the industrial landscape in India, and a comparison with other countries has led Lewis (2004) to conclude that it would be incorrect to pin too much blame on India's labor laws for the lack of dynamism in industry, given the many barriers to product market competition and infrastructure-related deficiencies that exist in the country. Lewis agrees that a number of large firms are financially weak and have many excess workers. The financial weakness of these firms constrains them from using voluntary retirement schemes. However, he notes that the "fundamental reason these plants have a problem now is not the labor laws. The real reason is that competition didn't force them to solve the excess labor problem with voluntary retirement schemes long ago when they were financially able to do so" (Lewis 2004, p. 206).

Fourth, and more relevant from the standpoint of policy reform issues today, it is far from clear how much impact labor laws have had since the early 1990s. While there has been much verbal support from many policy makers for changes in labor laws, the necessary legislation for diluting the Industrial Disputes Act, in particular, has not been introduced as the political consensus is lacking. However, the introduction of the National Renewal Fund in the 1990s to finance a voluntary retirement scheme in public sector enterprises may well have legitimized layoffs and retrenchments in the formal private sector. Though the labor laws themselves remain unchanged, their enforcement appears to have been substantially diluted as the Government appears to have shown gradually less enthusiasm for enforcing them, as noted previously.

Why would the Government let up on enforcement? The dirigiste development policies followed by India's Government until the 1990s functioned through a web of mutually interrelated policies. The private sector was assured returns via policies limiting entry and competition from trade. In return, it was expected that employers would "protect" employment by respecting labor legislation. The Government's commitment to trade and industrial liberalization from the early 1990s has appeared to dilute, in a de facto sense, the labor laws, given the heightened competition to which Indian industry has been exposed.

Box 5.4 summarizes the results of a study that are consistent with such an interpretation. Further supporting evidence comes from the trend of increasing use of contract labor not just in private enterprises but also in public sector enterprises, as well as trends relating to industrial disputes discussed earlier. Given the strong state involvement in shaping industrial relations, it might be hypothesized that shifts in the mind set with which government officials have approached regulations have played a big role in explaining recent trends. Interestingly, and in contrast with the situation in other countries, minimum-wage laws have not been part of the labor market rigidity debate. Box 5.5 provides some discussion on this issue.

### 5.4.5 Policy Debate on Labor Market Reforms

The previous discussion on India's labor laws has highlighted the following. First, labor regulations, as well as the administrative and enforcement machinery, have been heavily targeted toward workers in the organized sector. Second, the nature of regulations has been driven more by concerns with job security and protection of outcomes rather than any attempt to protect rights. Third, the enforcement machinery has been weak and has been associated with a poor adjudicatory infrastructure and weak legal support for nonadjudicatory systems.

Indeed, as our survey of the evidence on the impact of India's labor laws on labor market outcomes has suggested, a major reason for being skeptical about the view that India's labor laws have introduced serious rigidities is that the laws are poorly enforced. This, of course, is not a healthy situation. In the first place, if laws meant to protect workers are not being implemented then they are failing workers. Second, poor enforcement creates a poor culture of governance, which is ultimately detrimental to both workers and entrepreneurs. Finally, if the laws are poorly enforced, it needs to be asked why this is so.

One reason, provided above, is that in the context of economic liberalization, firms have needed de facto, if not de jure, labor market flexibility to survive. Indeed, it is precisely because of the changed economic circumstances in which Indian firms operate that the Indian Government requested views on

Box 5.4 **Liberalization and Its Impact on Workers in Formal Manufacturing**

The impact of trade liberalization on workers in developing countries has been the subject of a number of studies in recent years. While many of these have examined whether trade liberalization hurts or benefits unskilled workers relative to skilled workers, a few have looked at the impact of trade liberalization on labor demand elasticity—in other words, how responsive labor demand is to changes in wages. Some scholars have argued that greater openness to trade makes labor demand more responsive to changes in wages (see, in particular, Rodrik 1997). They maintain that since greater openness makes it easier to import all kinds of goods—capital inputs, finished goods, and intermediate goods—it can make it easier to substitute the services of domestic workers via the import of capital inputs or the products they were producing.[1] For any given increase in wages, more elastic labor demand would lead to a larger reduction in labor demand than otherwise. In this way, trade liberalization can erode the bargaining power of workers vis-à-vis the owners of capital in the sharing of profits. It can also lead to workers bearing a greater burden of the impact of nonwage labor costs (such as improved working conditions).

Hasan et al. (2005) use industry-level panel data from India's formal manufacturing sector along with industry-specific information on average tariff rates and nontariff barrier (NTB) coverage ratios to examine whether India's trade liberalization, begun in earnest in 1991, has made the demand for labor more elastic. They find that estimates of labor demand elasticity are larger after 1991 and larger in industries with lower tariff rates or NTB coverage ratios. For example, a reduction in average tariff rates from 150% (1988) to 40% (1997) would be associated with an increase of 9–13% in labor demand elasticities, depending on model specifics.

Significantly, Hasan et al. also find that the share of the wage bill in either total output or value added is lower in the more open trading environment after 1991, and is lower in industries that have lower barriers to trade. For example, controlling for industry and location (via the introduction of industry-location fixed effects), their estimates of labor share equations suggest that labor shares would decline by around 4% (as a share of total output) and 5% (as a share of value added) for a reduction in tariffs from 150% to 40%.

These results are consistent with the argument that workers in India's formal manufacturing sector have seen their bargaining power weaken as a result of trade liberalization. This is despite the fact that domestic labor laws have not changed on paper—though there is evidence of weaker enforcement.

Source: Hasan et al. (2005).

[1] Trade can also render more elastic the demand for the final goods that workers are making. In turn, this would lead to a more elastic demand for labor.

Box 5.5 **Minimum Wage Laws in India**

Unlike the case in a number of other countries, minimum wage laws are not part of the labor rigidity debate in India. There are several reasons for this. First, the key legislation—the Minimum Wages Act of 1948—covers workers in the unorganized sector, where wages are much lower than in the organized sector. The Government sets minimum wage guidelines only for the organized sector; wages here are set through collective bargaining in many industries and by industry-wide tripartite wage boards in others. Second, minimum wages as set by the Minimum Wages Act are typically low even insofar as the wage distribution of the unorganized sector is concerned. For example, a study by the International Labour Organization (ILO 1996, p. 35) found that minimum wages revised to account for inflation were often lower in real terms than minimum wages before the revision; moreover, the official minimum wages were often below poverty-line wages. Finally, even when they may be binding—as would happen for certain categories of workers—enforcement is weak.

The main objective of the Minimum Wages Act of 1948 is to protect laborers from exploitation in those industries and localities where the wages are likely to be very low for lack of organization of labor or for want of proper arrangements for the effective regulation of wages. The act provides for the fixing of minimum wages, by the appropriate government, in jobs covered by a schedule appended to the act. The appropriate government is empowered to add to the schedule for which statutory minimum wages are to be fixed. Currently 45 "scheduled employments"—corresponding loosely to sectors of economic activity—are listed for the fixing of minimum wages in the central sphere and a wide range of employment (from 83 in Orissa to 24 in Himachal Pradesh) in the state sphere. Examples of such scheduled employments (and the corresponding daily minimum wages) are: agriculture, Rs 86.63; construction or maintenance of roads or building operations, Rs54.28; stone breaking or stone crushing, Rs70.27; a variety of mines, Rs54.28; and security services, Rs54.28.[1]

The statutory regulation of minimum wages emerged from the recommendations of the Fair Wages Committee in 1948, which defined minimum wages as something above the bare subsistence wage. The 15th Indian Labour Conference stipulated the need-based minimum wage concept, which has been the basis for the fixing of minimum wages. In calculating the minimum wages the standard working-class family is assumed to consist of three consumption units (household/family members), and consuming food at the rate of 2,700 calories per average Indian adult, requiring clothing of 72 yards per year, paying a minimum level of rent, and making 20% of miscellaneous items of expenditure out of total expenditures. But the concept of need-based minimum wages and its components have been questioned and modified several times. The labor minister's conference in 1987 recommended that minimum wages be fixed in relation to the Indian poverty line. The act provides for an industry-cum-region approach in determining minimum

*continued.*

Box 2.3 *continued.*

wages in different regions and different industries. The 28th Indian Labour Conference of 1985 recommended that a national basic subsistence wage, below which no minimum wage can be fixed regardless of the nature of work and employment condition, be determined. The central Government in 1996 fixed the national floor level minimum wage at Rs35, which with changes in the consumer price index went up to Rs66 per day in 2004. However, several scheduled occupations in states have minimum wages still below the national floor level. The act provides for inspection and summary procedures for the recovery of claims under the act. While inspections have improved somewhat in recent years, prosecutions are still quite tardy (see Box Table 5.5).

Box Table 5.5 **Enforcement of Minimum Wages Act of 1948, 1985–2004**

| Year | No. of Inspections | No. of Prosecutions | No. of Convictions |
|---|---|---|---|
| 1985/86 | 9,217 | 5,956 | — |
| 2001/02 | 13,222 | 3,903 | 2,019 |
| 2003/04 | 15,212 | 5,260 | 3,904 |

— Not available.
Source: Annual Reports, Ministry of Labour, Government of India.

[1] http://www.labor.nic.in/wagecell/welcome.html; downloaded on 9 September 2005.

labor regulations from the Second National Commission on Labour (SNCL). In its resolution announcing the appointment of the SNCL, the Government set two tasks before it. The first was to "suggest rationalization of existing laws relating to labor in the organized sector," while the second was to "suggest an umbrella legislation for ensuring a minimum level of protection to the workers in the unorganized sector" (Ministry of Labour 2002, p. 6). According to the Government's resolution, the emerging economic environment was characterized by the "globalization of the economy" and "rapid changes in technology." These forces required "responses that were necessary to acquire and retain economic efficiency and international competitiveness" (Ministry of Labour 2002, p. 6).

Recognizing that an emphasis on jobs and job security without addressing concerns with productivity and growth would raise the risk of re-creating the public sector problems of profitability and long-term nonviability in other areas as well, the SNCL formulated an integrated program of reforms. In what follows we discuss some of the main elements of their recommendations, along with a brief assessment of these.

First, a central concern of the SNCL was to provide a uniform framework for labor market regulation that would cover all employees. Ideally, if this were done correctly there would be no need to have a separate regime for the formal and informal sectors. However, the need for continuity so that existing protections are not removed too dramatically led the SNCL to posit a twofold structure. Establishments employing 20 or more workers would be subject to a more onerous legal reporting regime, while the smaller units would have a simpler regime.

While this does have the benefit of sparing the smaller units from intrusive legislation, it reduces the incentive to grow. It may have been better if intrusive systems were identified and provided for with a sunset clause. Further, the SNCL appears to compound this problem by creating a third category of labor regulations (those dealing with establishments with 300 or more employees) for issues like method of union recognition and permission under the Industrial Disputes Act for closure and retrenchment. The problem with regulations that depend on the number of employees is that they create two types of distortions. First, they fragment the labor force into protected and unprotected segments. Second, since the aim of exempting the smaller units is to relieve them of their onerous reporting obligations, the regulations remove some of the incentives to improve the monitoring regime.

Second, the SNCL has sought to protect labor rights through a two-pronged strategy. First, it sought to end the fragmentation in the various social security schemes, as well as the systems for labor organization and representation. Thus, the SNCL emphasizes that the umbrella legislation proposed for the unorganized sector must recognize and protect all types of workers regardless of industry, occupation, and work status. Further, the requirement in the Trade Unions Act that workmen in a trade union must be employed in a "trade or industry" has hampered the extension of unions to unorganized activities. The SNCL therefore recommends the de-linking of this requirement so that many activities and occupations that do not now fall under the definition of "industry" under the labor laws could be covered. Second, the SNCL has sought to enhance the framework for unionization and collective bargaining. Thus, there are comprehensive recommendations for collective bargaining, union recognition, and dispute settlement through arbitration rather than adjudication. This approach seeks to emphasize rights and tries to enforce them, and leaves issues of minimum bonus, productivity wages, etc., which are primarily outcomes to be negotiated, as part of the bargained outcome. Such a two-pronged approach seems eminently sensible, and a starting point could be the umbrella social security system discussed in the SNCL and the ILO's fundamental principles.[44]

Third, the SNCL has sought to make labor regulations more flexible in providing employers with more leeway in hiring and firing decisions. The two main ways in which it has attempted to achieve this is by proposing major amendments to the Industrial Disputes Act and the Contract Labour Act. Table 5.25, which is drawn from Sunder (2005), gives a snapshot view of the most important changes recommended by the SNCL in the Industrial Disputes Act, along with the actual provisions that are now in place. As the first row of the table indicates, the SNCL has sought to extend the scope of the act to all sectors and not only industrial factories, mines, and plantations, as is now the case. This would be in keeping with the recommendation of the SNCL for a uniform framework for labor market regulations, as discussed above. The SNCL has also extended from 30 days to 60 days the notice period that must be given by employers for layoffs, retrenchment, and closure. Most significantly, the SNCL has recommended the abolition of the requirement to seek government permission for layoffs and retrenchments. Government permission would, however, continue to be required for closures. But this would apply only to firms with 300 or more workers. The greater flexibility given to employers in adjusting their employment levels is accompanied by an increase in compensation rates to affected workers. Finally, the SNCL has recommended that firms should clear all dues to workers before retrenchment or closure (Sunder 2005).

On contract labor, the SNCL has noted that the present law, with its emphasis on abolition, and the distinction it makes between perennial and short-run employment, misunderstands the nature of technical change. The SNCL argues that the focus should instead be on core and peripheral activities. This argument is valid, except that the method of defining core activities through legislation throws the baby out with the bathwater. India's recent success in outsourcing should make it clear that core activities are decided by technology. Thus, changes in communication can make record keeping a "noncore" activity. The judgment regarding which activities to do in-house and which to contract out is a trade-off between costs and risk bearing. It is a judgment best left to the entrepreneur. Once it is recognized that the focus of contract labor law should be on regulation rather than abolition, one must ask the question why the law is needed at all. Since regulation is best dealt with by specific laws on rights and safety applicable to all employees, a recommendation to abolish this act should have been emphasized.

On the whole, the recommendations of the SNCL appear to be in the right direction in rationalizing India's labor laws and related institutions. Trade unions and employers, however, disagree on a number of points. But, as Sunder (2005) states, the dissent from the trade unions has been sharper. A key area of disagreement concerns the recommendations made in relation to layoffs, retrenchment, and closure. Ultimately, there are two sources of concern. First, in contrast to the confidence of liberal policy makers and economists, the trade

Table 5.25 **Differences in Layoff, Retrenchment, and Closure Provisions Between the Industrial Disputes Act and the Second National Commission on Labour (SNCL)**

| **Particulars** | **Industrial Disputes Act** | **SNCL** |
|---|---|---|
| Scope | Factories, mines, and plantations | All industries |
| Notice period or pay in lieu of it | 30 days | 60 days |
| Notice to | | |
| Affected workers | Yes | Yes |
| Negotiating agent | No | Yes |
| Appropriate government | Yes | Yes |
| Government permission required for | | |
| Layoff | Yes (100+ workers) | No (all companies) |
| Retrenchment | Yes (100+ workers) | No (all companies) |
| Closure | Yes (100+ workers) | Yes (300+ workers) |
| Compensation rates (No. of days' pay per year of completed service) for | | |
| Retrenchment | 15 | 45–60 (300+ workers)<br>22.5–30(fewer than 100 workers) |
| Closure | 15 | 30–45 (300+ workers)<br>15–22.5(fewer than 100 workers) |
| Layoff | 50% of wages | 50% of wages |
| Clearance of dues to workers as a precondition to closure | No | Yes |

Source: Sundar (2005), Table A-1.

unions do not believe that labor market flexibility will create jobs. They believe that increased market competition and new technologies will result in fewer jobs, especially stable ones. The experience from several of India's leading manufacturing companies that have undergone dramatic restructuring over the last five to ten years lends support to these concern. See, for example, the cases of Bajaj Auto and Mahindra and Mahindra whereby new production technologies have allowed these firms to raise production dramatically without significantly increasing employment levels (see Merchant et al. (2005) cited in Chapter 10 of this volume). Second, India's system of social protection remains weak (for the most part) or, in cases where protection is available, it is associated with specific jobs. If such jobs go, so does the social protection. In the next section, we turn to a closer examination of social protection in India.

## 5.5 Social Protection in India

Social protection encompasses policies and programs that, on the one hand, enhance workers' capacity to protect themselves against loss of income and, on the other, diminish workers' exposure to job-related risks. Loss of income may be due to layoffs or other factors, including ill health, disability, and old age. There are many forms of social protection.[45] Here, we discuss two forms of social protection that have special significance to workers and the operation of labor markets in India. These are social security policies and programs and active labor market programs. While the former are designed to cushion risks associated with old age, ill health, disability, work-related injuries, and unemployment, the latter include programs that aim to put people to work, for example, through employment generation programs.

A couple of key points may be noted regarding social protection in India. First, the provision of formal social security, encompassing the provision of pension and health-related benefits, etc., has by and large been for workers in the organized sector (which, as seen earlier, comprises only around 7% of India's workforce). For the rest of the workforce, however, the approach to social protection has relied mostly on "promotional" measures such as the special programs to encourage employment (self-employment as well as wage employment) among the very poor, rudimentary health-care services and education, and a system for distributing subsidized food to the public. Some "protective" schemes have also been introduced in several states to cover workers in the unorganized sector, but the extent and coverage of these is extremely limited except in a very few states.

Second, provisions for job security in India's labor code have been a de facto substitute for a system of unemployment insurance insofar as organized sector workers are concerned. Moreover, the fact that recourse to systems of social protection typically goes hand in hand with employment in the organized sector gives a sense of how much a worker in the organized sector has to lose as a result of job loss. From a policy perspective, the implications should be clear. If for no other reason than political economy considerations, it is difficult to remove regulations providing job security unless adequate compensatory mechanisms are developed. This is especially so since displaced workers in the organized sector are unlikely to benefit from systems of social protection that are tied to the job, especially those relating to public works programs and other "safety net" programs aimed at the very poorest. More generally, making it easier to lay off organized sector workers will require some commitment on the part of the Government to develop mechanisms for protecting laid-off workers from the loss of income. Rationalizing severance pay schemes and, ultimately, moving toward unemployment insurance mechanisms need to be contemplated.

## 5.5.1 Social Security: Legislative Provisions and Coverage

### *Formal Social Security*

As Table 5.26 below indicates, a variety of social security programs and security related policies provide social protection to workers. Although these programs are not always limited to workers in the organized sector, such workers tend to be their main beneficiaries. A brief description of formal social security programs is as follows.

Table 5.26 **Formal Social Security Protection in India**

| Type of Benefit | For Public Employees | For Private Sector Employees |
|---|---|---|
| Medical Care | Free treatment in hospitals and reimbursement of cost of drugs | Free treatment and reimbursement of drugs under ESI Act |
| Sickness | Medical leave with full pay | Sickness leave with pay under ESI Act |
| Maternity | Maternity leave with full pay | Maternity benefits under ESI Act or Maternity Benefits Act |
| Unemployment | Severance benefits under Industrial Disputes Act | Severance benefits under Industrial Disputes Act |
| Disability | Ex-gratia relief | Benefits under ESI Act or Workmen's Compensation Act |
| Old-Age | Pension and gratuity or contributory provident fund and gratuity | Payment under EPF Act and Payment of Gratuity Act |
| Survivor | Subsidized group insurance for death while in service; family pension in the case of death after retirement | Deposits-linked insurance and family pensions under EPF Act |

ESI = Employees' State Insurance;
EPF = Employees' Provident Fund.

The **Workmen's Compensation Act of 1923**, one of the earliest pieces of labor legislation, covers all cases of "accident arising out of and in the course of employment." Compensation is paid in a lump sum, according to a schedule, and is proportionate to the extent of injury and the loss of earning capacity. The younger the worker and the higher the wage, the greater is the compensation, up to a limit. If a worker dies, dependents can claim the compensation. The amount of compensation has been fixed at Rs90,000–Rs548,000 for permanent total disablement, and Rs80,000–Rs456,000 for death. This law applies to certain categories of unorganized sector industry and to those in the organized sectors who are not covered by the Employees' State Insurance Act, which is considered to be superior in concept to the Workmen's Compensation Act.

The **Employees' State Insurance Act (1948)**, the first post-independence legislation relating to social security, provides a scheme under which the employer and the employee must contribute a certain percentage of the monthly wage to the insurance corporation that runs dispensaries and hospitals in working-class localities. The act covers all employees earning less than Rs6,500 a month. Workers are compensated for employment-related injury or disease in proportion to the extent of injury and loss of earning capacity, according to a schedule of rates. Payment is monthly. Despite the existence of tripartite bodies to supervise the running of the scheme, the entire project has fallen into disrepute through corruption and inefficiency. This facility is rarely availed of by workers in genuine need of medical attention but is used quite liberally to obtain medical leave. Workers have, in fact, sought exemption from the scheme in the courts in anticipation of better facilities available through collective bargaining.

There has been a steady decline in the number of insured and beneficiaries since the mid-1990s. This may be due partly to the wage ceilings under the act and also to a shift to private insurance and health-care systems by employees in the organized sector (Table 5.27).

Table 5.27 **Number of Employees and Beneficiaries Covered by the Employees' State Insurance Scheme, 1991–2004**

| Year | No. of Insured Persons ('000) | No. of Beneficiaries ('000) |
|---|---|---|
| 1991/92 | 6,109 | 23,703 |
| 1995/96 | 7,303 | 28,335 |
| 1997/98 | 9,095 | 35,290 |
| 1998/99 | 8,819 | 34,218 |
| 1999/00 | 8,601 | 33,372 |
| 2000/01 | 8,493 | 32,955 |
| 2003/04 | 7,865 | 30,373 |

Source: Ministry of Labour, Government of India.

The **Maternity Benefit Act (1961)** applies to notified establishments. Coverage is not subject to wage limits and can therefore also extend to the unorganized sector, though this is rare in practice. A woman employee is entitled to 90 days of paid leave for delivery or miscarriage. Other benefits, including hospitalization, are available under the law.

Workers are generally entitled to two types of retirement benefit, provided under the **Payment of Gratuity Act of 1972** and the **Employees' Provident Fund Act of 1952.** Under the Payment of Gratuity Act, a worker who has put in at least 5 years of work may receive, on retirement or termination of employment, a lump sum equal to 15 days' wages for every completed year of service. Every month the employer is expected to contribute the required money into a special fund. There is no wage ceiling for coverage. Under the Employees' Provident Fund Act, both the employee and the employer make equal contributions to a national fund. The current rate of contribution is 12% of the wage, including a small percentage toward family pension. This contribution earns interest, currently 8.5% per year, and the accumulated amount, along with the accrued interest, is paid to the employee on retirement. However, as employees may borrow from the fund for house construction, the wedding of children, education, etc., very little is available at the time of retirement. Since 2001, all those who join covered establishments and get wages up to Rs6,500 have been required to join the fund. The act now covers 180 specified industries or classes of establishments notified by the central Government and employing 20 or more persons. This benefit is steadily being extended to sections of the unorganized sector, especially where the employer is clearly identifiable (Table 5.28).

Table 5.28 **Coverage of the Employees' Provident Fund and Miscellaneous Provisions Act of 1952, 1970–2003**

| Year | No. of Factories/ Establishments | No. of Subscribers ('000) |
|---|---|---|
| 1970 | 46,504 | 5,605 |
| 1975 | 64,712 | 7,603 |
| 1980 | 93,094 | 10,463 |
| 1985 | 154,124 | 12,930 |
| 1990 | 194,961 | 14,665 |
| 1995 | 251,038 | 18,724 |
| 2000 | 326,541 | 24,537 |
| 2001 | 340,013 | 26,301 |
| 2003 | 344,508 | 39,498 |

Source: Ministry of Labour, Government of India.

Despite this seemingly comprehensive coverage, social security in India lacks a clear policy direction. The various schemes and types of benefits provided do not conform to any overall plan or design. As a matter of fact, there is no plan for social security, and the Government's 5-year plans are for all practical purposes silent about social security issues. The schemes have limited coverage, as their applicability depends on wage ceilings, the number of employees in an establishment, the type of establishment, the number of years an establishment has been in existence, etc. Such provisions have only hindered attempts to extend the scope and coverage of schemes. There are no uniform criteria for coverage. Different schemes have overlapping provisions. Moreover, there is too much dependence on employers' liability schemes as against social insurance in case of retrenchment, termination of service, employment injury, and maternity-related requirements.

*Social Security for the Unorganized Sector*

Protective social security for the vast majority of workers in the unorganized sector and for the self-employed is very limited in India. The single most significant form of social security in the unorganized sector is the old-age pension provided by some state governments and union territory administrations. Apart from general old-age pensions, some states have introduced separate pension schemes for agricultural labor, the destitute, and the physically handicapped, as well as a maternity benefit scheme for landless agricultural women. Schemes providing financial assistance to widows and divorced women have also been introduced by some state governments. The state governments of Kerala and Tamil Nadu, in particular, have introduced many social security and welfare schemes for the unorganized sector. In mid-1995, the Government of India introduced the National Social Assistance Program, which provides three cash benefits: old-age pensions, maternity benefits, and death-related benefits.

The dominant reliance on "promotional" social security measures for the poor in the unorganized sector, to the virtual neglect of protective social security schemes for others, stems mainly from the notion that with so many poor people, chronic poverty had to be dramatically reduced before any plans for contingent poverty relief could be made. It is important to reexamine this view and explore the feasibility of protective social security measures for those poor people who cannot be reached by promotional measures. The protective social security measures are an integral, but now missing, element of the fight against poverty and complement the promotional and targeted antipoverty programs.

Recognizing the highly skewed nature of the social security system in India, the Second National Commission on Labour recommended the formulation of umbrella legislation for the social security needs in the unorganized sector (Ministry of Labour 2002). A draft bill was prepared in 2003 with the backing of the Ministry of Labour. The bill provided for the universal registration of unorganized workers in designated worker facilitation centers. Workers had to register to qualify for health benefits, old-age pension, and accident benefits. In March 2004, the Government began implementing some social security provisions of the draft bill in 50 selected districts. But the change in government later that year prevented the full implementation of the scheme.

More recently, a new draft bill on social security for organized sector workers has been proposed by the National Advisory Council and submitted to the Government.[46] The draft bill builds on the previous one. Workers still register, pay their contributions, and receive benefits at worker facilitation centers. Once registered, a worker would be entitled to a "floor level" of life insurance, health and disability insurance, and maternity benefits, without having to contribute. But workers must contribute (through membership fees, for example) to avail themselves of old-age benefits including pensions. The various benefits would be funded by the central Government directly or through employer contributions (among other sources of funds being considered).

The effective implementation of the proposed social security system for unorganized sector workers is still probably several years away at least. Meanwhile, let us examine the active labor market policies and programs aimed at generating employment and providing income security.

### 5.5.2 Active Labor Market Policies

Active labor market policies include an array of measures intended to create employment, assist workers with job searches, and enhance workers' skills through training and education. In India, employment creation policies have been particularly prominent, especially over the last 30 years. But active labor market policies have a fairly long history, dating to the precolonial period, when the Mughal emperors carried out mass public works to relieve famine distress.

Similar attempts were made in the colonial period, especially in the 1880s. The Indian Famine Commission (1880) set up after the massive Deccan famine of 1877–1878 recommended public works programs to relieve acute distress and mortality. Elaborate and stringent famine relief codes were devised to regulate the programs including wage rates and conditions for starting and ending these programs. However, the massive and continued mortality from famines in the late 19th and 20th century, the most infamous being the Bengal famine of 1943, showed that the programs were far from successful in alleviating distress. Sporadic and aimed mainly at alleviating periodic distress, they hardly took into account the chronic distress due to entitlement failures in large parts of India. Employment generation was hardly their main objective.

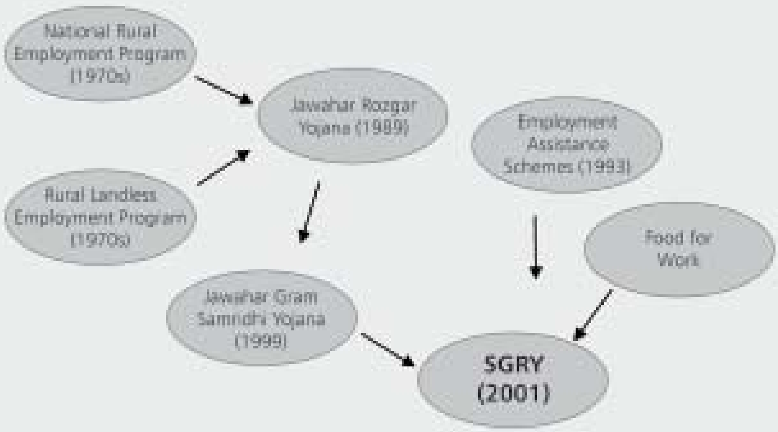
Since independence, and especially since the 1970s, the Government has launched a series of wage employment programs, as well as programs to encourage self-employment. Most of the programs have been targeted to specific social groups (scheduled castes, scheduled tribes, rural poor, women, etc.), but a few have had universal coverage.

Wage employment programs, also known as public works programs (or workfare), have typically combined the objective of creating jobs for the unemployed and underemployed with that of creating community assets and physical infrastructure. Participating workers are paid in cash or food grains, or both.

The first major wage employment program, called Food for Work, was begun in India in the 1970s. Other programs, introduced later, included the National Rural Employment Program (NREP) and the Rural Landless Employment Guarantee Program (RLEGP), which was also introduced in the 1970s. Over the years, various national programs have been merged. As Figure 5.13 shows, many of the programs were eventually placed under the Sampoorna Gramin Rozgar Yojana (SGRY). There have also been state-led initiatives, the best-known of which is probably the Maharshtra Employment Guarantee Scheme.

The various employment generation programs have mostly been for the rural areas. But over the years, urban poverty has shown itself to be as persistent as rural poverty. Studies show that urban poverty is relatively high among the

Figure 5.13 **Evolution of Sampoorna Gramin Rozgar Yojana (SGRY)**




Source: Srivastava (2004), p 20.

self-employed households, which account for about two fifths of the urban population. Therefore, employment generation programs have been started in urban areas as well. The first initiative in this direction was taken in 1986 with the introduction of the Self Employment Program for Urban Poor (SETUP). Poor urban households could take out a bank loan of up to Rs5,000 to start self-employment ventures. Twenty-five percent of the loan was subsidized by the Government.

How effective have the various programs been? The features and performance of a couple of major programs are briefly reviewed here.

### *Jawahar Rozgar Yojana (JRY)*[47]

The creation of more employment opportunities for the unemployed and underemployed in rural areas was a primary objective of this program. A secondary objective was the creation of sustained employment for the rural poor through strengthened rural economic infrastructure and assets, and improvements in the quality of life in the rural areas.

According to a concurrent evaluation by the Ministry of Rural Development in 1993/94, the JRY generated about 11 days of employment per person during the reference period of 30 days before the survey. In some comparatively poor states such as Madhya Pradesh and Orissa, JRY workers got work for less than 10 days a month.

As the average employment per participant was about 11 days a month, wage rates of Rs33.36 per day implied a supplementary monthly income of Rs369 to the household—about 40% of the poverty line. Thus, the JRY seems to have contributed substantially to the family income of the poor.

The concurrent evaluation also showed that the beneficiaries largely fit the criteria—82% of the JRY workers were poor. But there were large variations across states. The percentage of nonpoor beneficiaries was quite high in Punjab (56%), Andhra Pradesh (51.7%), Karnataka (34%), Kerala (32%), Uttar Pradesh (30.2%), and Bihar (22%).

Among the major weaknesses of the program, as the evaluation pointed out, were delays in the completion of work owing to lack of funds (affecting 47% of work), and noncompliance with policies stipulating the extent of job creation for women (30% of jobs, versus the 16.6% that actually went to women) and the type of asset to be created (40% for watershed development and 20% for minor irrigation, link roads, building for schools, etc.).

The conflict between employment generation and asset creation objectives, common to all wage employment programs, assumed greater significance in the case of the JRY, particularly in view of its large outlays. It is therefore argued that while providing additional gainful employment to the rural poor is the main objective of the program—and this objective is being met to a significant extent—the large outlays must at the same time help to create useful community and productive assets for sustaining the employment generation and development in the rural areas.

To develop village infrastructure, the JRY was strengthened and restructured as Jawahar Gram Samridhi Yojana (JGSY) on 1 April 1999. The JGSY gave explicit priority to creating village infrastructure including durable assets at the village level and assets to increase the opportunities for sustainable employment for the rural poor and, secondarily, to generate supplementary employment. After a short time, the JGSY was merged into a new program, the Sampoorna Gramin Rozgar Yojana (SGRY).

*Maharshtra Employment Guarantee Scheme (MEGS)*

Begun in 1973, the MEGS is aimed at providing guaranteed employment to all adult persons living in the rural areas and small municipal towns of the state of Maharashtra. The state guarantees to provide unskilled manual work at the minimum wage within a 5 km radius from where a registered participant lives. If the state fails to do so it must pay an unemployment allowance.

So far, the program has spent more than Rs90 billion and generated about 3.7 billion ,person-days of employment (Krishnaraj et. al. 2004). Assets created under the program have contributed to the development of agriculture, the dairy industry and horticulture, and watersheds in certain places. This program has been funded through a special tax on urban professions and matching government contributions. Significantly, the provision of a separate fund has made the program financially sustainable over the long term.

A major limitation of MEGS has been the fact that it has not dramatically reduced poverty or unemployment. In fact, Maharashtra has not done too well in poverty reduction compared with many other states (Hirway 2004). According to official data, the incidence of poverty in Maharashtra was 23.72% in 1990/2000, placing the state ninth among the 15 major states in India in poverty rates. In 1973/74 the state was in seventh place. Moreover, between 1973/74 and 1993/94 the poverty rate declined by 31.19%—less than the 33.90% decline for the whole of India. In addition, distressed seasonal migration still persists in many parts of the state because of the weak implementation of the scheme in relatively more backward and tribal-dominated districts.

However, this does not mean that the program has not helped the poor. Datt and Ravallion (1992) find, for example, that participation in the program reduced the severity of poverty from 5% to 3.2%. Social gains also seem to have been achieved. Specific features of the program were designed to encourage the participation of women. For example, crèche facilities (for the care of young children) have been provided. As a result, half of all participants have been women and, as some researchers have noted, the participating women have risen in status within their families (Subbarao 2003). Finally, MEGS has shown that it is possible to put in place a permanent system of employment-based social security backed by a legal guarantee.

This overview of the JRY and MEGS programs, along with reviews of recent evaluation studies carried out on similar programs in India, indicates the following:

1. The employment generated under various active labor market policies has been quite limited, given the magnitude of unemployment and underemployment in the country.
2. The employment generated under these programs has declined in recent years despite a significant rise in funds allocated to these programs.
3. These programs have also had limited impact in generating durable and high-quality assets; moreover, the assets created are poorly maintained.
4. Leakage of funds and top-heavy implementation are chronic drawbacks of the programs.
5. Program beneficiaries and assets are often improperly targeted and selected.

In sum, though there have been pockets of success, the overall impact of these schemes has been discouraging. Many analysts maintain that the lack of statutory legal backing for most of the schemes is an important reason for the problems highlighted above. Similarly, it is argued that the programs fail mainly because the poor are not empowered and employment is not viewed as a right. It is in this context that the experience of MEGS, which obligates the state government to provide employment, has acquired renewed significance.

In fact, the National Rural Employment Guarantee (NREG) Act of 2005 attempts to build on the experiences of previous programs in tackling the problems of rising unemployment and insecure employment for most workers in rural India. The NREG guarantees 100 days of employment per year for at least one adult in every rural household in 200 districts (600 districts in 5 years' time after notification of the NREG Act).[48] Participants are entitled to the state-specific statutory minimum wage applicable to agricultural workers within a prescribed time limit or, failing that, a daily unemployment allowance.[49]

Whether the NREG can address the concerns of employment generation and poverty reduction is unclear. Two issues have risen to the forefront. First, critics say the NREG is too costly. Proponents, on the other hand, calculate that, even assuming universal coverage for 40% of all rural households living below the poverty line, the total cost will not be more than 1% of GDP (see, for example, Papola 2005). Given the objective of providing productive employment and creating durable assets, this cost is perhaps not unbearable.

The second issue concerns targeting and self-selection. The NREG will use the minimum wage as a means of self-selection into the program. Critics argue that the wage rates offered by the NREG must be below market wages to ensure that the workers who participate in the program are indeed the poorest. (In large parts of rural India, market wages are below the minimum wage.) The critics cite the example of MEGS, where a large increase in the wage paid in 1988 (program wages were made equal to the minimum wage) led to a drastic rationing of work. This rationing was associated with a decline in the participation of the poor, as the nonpoor grabbed the available jobs. An analysis of household survey data has shown that the poor made up 48% of the participants in MEGS in 1979 but barely 27% in 1989 (Gaiha 2005).

While these concerns have some legitimacy, offering wages below the minimum wage may well increase employment but is unlikely to ensure a better life for the poor. As noted recently by Amartya Sen, the mere provision of employment does not make people more productive. Ensuring a minimum income without expanding capabilities commensurately (through health, education, and infrastructure services) would only make the poor more dependent on low-end marginal jobs rather than productively and decently employed. The synergy between private income generation and public expenditures is the best way to make active labor market policies more inclusive.

All things considered, the NREG is an important step for active labor market policies, with empowerment and legal rights for the poor being its main departure from earlier programs. How it actually plays out remains to be seen.

## 5.6 Skills, Education, and the Labor Market

Two salient points can be made with regard to skills, education, and the labor market in India. The first is that there are weaknesses in human capital at all levels. The second is that a mismatch between demand and supply in the labor market imposes a significant rigidity on the labor market.

The general literacy of the population is the broadest measure of skill of the workforce. Despite substantial improvements in literacy rates over the last two decades, 35% of the population over the age of 7 was still illiterate in 2001 according to the population census of 2001. This figure conceals significant gender and regional/state disparities in literacy. In 2001, literacy was 76% for males, compared with only 54% for females, and three states/territories had literacy rates over 85% while four had rates below 55%. At the extremes are the southern state of Kerala, with a 91% literacy rate, and the north-central state of Bihar, with a literacy rate of only 48%. Such disparities exist at higher levels of skill attainment as well.

As the literacy figures suggest, a substantial proportion of the labor force is low-skilled. In 1999/2000, 42% of the labor force had no education, 6% had tertiary education, and across the labor force the average number of years of education was only 3.9 years (see Table 5.29, from Ghose 2004). The SNCL has estimated that only 12% of the 86 million or so new entrants into the workforce in 2000–2007 will have acquired any formal training (Ministry of Labour 2002).

Table 5.29 **Level of Education of Population and Labor Force, 1999/2000**

| | Average No. of Years of Education | No Education (%) | Tertiary Education (%) |
|---|---|---|---|
| **Population** | | | |
| All | 3.4 | 38.2 | 3.9 |
| Male | 4.2 | 28.3 | 5.0 |
| Female | 2.7 | 48.3 | 2.6 |
| **Population Not Attending Educational Institutions** | | | |
| All | 3.3 | 49.4 | 4.7 |
| Male | 4.2 | 37.7 | 6.5 |
| Female | 2.3 | 61.7 | 3.0 |
| **Labor Force** | | | |
| All | 3.9 | 42.4 | 6.3 |
| Male | 4.6 | 33.0 | 7.3 |
| Female | 1.9 | 68.5 | 3.7 |

Notes: 1. Age group: 5 years or older.
2. Labor force is based on the Usual Principal Status.
3. The education categories in NSSO surveys are not in terms of number of years of education. The following assumptions were made to derive the estimates in terms of number of years of education: "not literate" = 0 years of education; "literate and up to primary" = 1–5 years of education; "middle" = 6–8 years of education; "secondary" = 9–10 years of education; "higher secondary" = 11–12 years of education; and "graduate and above" = more than 12 years of education.

Source: Ghose (2004).

As one might expect, research shows a strong inverse relationship between poverty and years of education (Ghose 2004), and a significant correlation between the education and skills of the workforce and population and the level of economic development of the states (Mathur and Mamgain 2002). Technical education, in particular, shows a strong correlation with economic growth consistent with the view that growth of technical education is an important driver of economic development in India (Mathur and Mamgain 2002).

Technical education is provided at three levels in India: school-level programs, post-school diploma programs, and post-school degree programs. Some of their key features are as follows:

1. **Industrial training institutes and centers (ITIs)** specialize in vocational programs with an emphasis on skills/crafts training to prepare skilled workers. Students enter these after completing primary school. The quality of vocational training is extremely uneven and inadequate. Many programs have limited resources and the content of practical training is generally below desired levels. The curriculum does not respond to technological changes and is lacking in the entrepreneurial aspects necessary for expanding self-employment opportunities. There is generally a low interface between industry and the vocational training structure, leading to a persistent mismatch between emerging demand and available supply. As a result of all these factors, the programs produce graduates who are hardly employable. In a study of 835 graduates of ITIs in Delhi, Ramachandran (2002) found unemployment rates to be as high as 35–40%. Most industrial establishments preferred to train their employees on the job rather than to hire graduates of these programs (Ramachandran 2002). Finally, the earning differentials of vocationally trained students are reported to be low, reducing demand for these courses among students. Of more than 232,000 available apprenticeship positions as part of these training programs, only 162,000 have been used (Ministry of Labour, Annual Report 2003).

2. **Vocational and training institutes** such as polytechnics offer diploma programs to prepare supervisory manpower and middle-level executives. These programs are open to high school graduates. In the 1980s, 500 new polytechnics opened (there were 363 in 1981). In the 1990s, only 200 new polytechnics were added. The absorption rate of the graduates proved low, with technical diploma holders having the highest unemployment rate among the educated workforce (Mathur and Mamgain 2004). The expansion of degree programs discussed below is the reason most often given for this situation.

3. **Professional institutions** such as engineering colleges and technical departments of universities offer post-school degree programs in the functions of planning, design and production. Degree programs have had phenomenal growth. The number of programs doubled between 1981 (171) and 1991 (351), 500 new programs were added in the 1990s, and another 500 were added in the single year 2001/02. Admissions doubled during the 1980s and quadrupled between 1990 and 2001. Concerns have been raised with respect to both quantity (number of institutions) and quality (not high enough). Student intake capacities have outstripped labor market demand by a factor of 7 (Ramachandran 2002), suggesting a gross mismatch between what the economy can support and what has

been sanctioned by the All India Council for Technical Education. Two years after finishing their education, 30% are unemployed. Increasingly, more engineering graduates are performing functions at a lower level of skills than their training would suggest, causing an acute contraction of the labor market for diploma holders and lowering their incomes.

A micro-level examination of these issues further bears out this picture. Varma and Sasikumar (2003), while examining the skill development systems at the district level (Jabalpur, Madhya Pradesh), concluded:

1. Centralized decision making as regards course curricula bars flexibility in responding to emerging labor demands at the local level. (This is especially true of the ITIs.)
2. There was no evidence of partnerships between industry and skills development institutions, which could bridge the gap between the skills demanded by industry and the skills being supplied.
3. Labor market information was patchy and hardly used for designing effective skill development programs. Employment service institutions in India, such as the employment exchanges, were conceived as labor market information systems. However, a closer examination of their functioning reveals that the concept was never put into practice.
4. An examination of professional technical education, including the information and communication technology institutions, shows a mushrooming of courses for low-end skills, which are prone to rapid obsolescence.
5. There was no certification or competence monitoring of skills acquired through informal systems of skills delivery (such as apprenticeship and acquisition of hereditary skills in the family).

In sum, the formal system of skills development in India is grossly inadequate for providing a skilled labor force. There are not enough venues for acquiring formal training—the bulk of skill acquisition is done through on-the-job training or informal skill delivery systems. There are serious problems with the content and product of the training that is provided. There is a complete lack of certification and standardization of competence acquired through informal methods, on the one hand, and a gross mismatch between skill demand and formal skill development capacity, on the other.

Fortunately, there is a growing awareness of these problems and an agreement that corrective steps need to be taken. Looking to the future, the SNCL has recommended a three-pronged strategy for skill development, especially in relation to the informal sector and the changing nature of the labor market:

1. **Modular approach to vocational training.** Multiple skills are provided so that an individual gets trained in a set of interrelated skills rather than a single skill. With shorter product cycles this is considered crucial, especially in the manufacturing sector.
2. **Competency-based training systems.** Avenues are provided for competence assessment and certification at each level of the learning and training hierarchy for different trades/disciplines. The emphasis would be on the attainment of competence rather than simply on the time spent in training.
3. **Competence certification systems.** Competence-based modular training can function effectively if a system certifying competence is in place. The SNCL has recommended the setting up of an independent regulatory authority with statutory powers to set standards of competence at different levels in each important trade/discipline. The certification will be of competencies acquired through both informal and formal means. The model for this is the National Council of Vocational Qualification (NCVQ) system set up in the UK in 1986.

The SNCL, while recommending these strategies, also recommended certain specific measures to expand and revamp the existing skill development systems, such as the setting up of an adequate labor market intelligence system for mapping existing skills and forecasting demand for marketable skills. The SNCL also recommended a revamp of the ITIs by restructuring their courses to make them market-driven and to have a stronger interface with industry. Finally, it recommended the setting up of a skill development fund for the needed retraining of redundant or retrenched workers in the organized sector. The fund is to be financed from the provident fund contributions of employers and employees (2% and 1%, respectively).

The skills issues discussed above apply equally to higher-level technical education, where a persistent mismatch between demand and supply, on the one hand, and the low quality of education, on the other hand, have been highlighted.

## 5.7 Concluding Remarks

This chapter has examined several dimensions of India's labor markets. In addition to describing the evolution of a variety of labor market outcomes, it has provided an overview of labor market regulations, social protection systems, and the status of skills and skills delivery institutions in India. This chapter's review has served to highlight the following.

Dualism is a deep-rooted aspect of India's labor market. One segment of the labor market, the organized or formal sector, functions within an elaborate structure of protective legislation and institutions providing social protection, and has been characterized by remarkably slow growth in employment. The other segment, the unorganized or informal sector, has seen much more employment growth. Unfortunately, wages in this sector are poor (thereby leading to vast poverty), there is little in the way of social protection, and even basic labor laws are hardly enforced.

The attitude to employment in the organized sector has been governed more by concerns with job security and protection of outcomes rather than an attempt to protect rights. At the same time, while in principle the provision of job security can lead to serious rigidities in the operation of the organized labor market, in practice the extent of job security has surely been diluted by an increasingly weak regime for the enforcement of labor and other laws, a poor adjudicatory infrastructure, and weak legal support for nonadjudicatory systems.

This is not to suggest that India's labor laws are not in need of reform. Rather, reforms have to be viewed more broadly, and not as the mere removal of particular features of the labor laws, such as the restrictions on firing and layoffs and on the hiring of contract workers. While such restrictions may go against the grain in an economic environment where markets are increasingly relied on to allocate resources, these restrictions are by no means all that needs to be reformed. In the first place, de facto flexibility in firing workers and hiring contract workers—a strong possibility because of weak enforcement—suggests that a package of labor market reform that focuses solely on providing more flexible labor regulations will not do much to improve the workings of labor markets. Second, India's many overlapping and sometimes contradicting labor laws must be rationalized. Equally essential is the need to extend an enforceable set of basic rights to workers in the unorganized sector. Finally, India's labor markets will not function effectively if the systems of social protection and skills development for workers remain as they are.

As highlighted in our discussion on social protection, it is not as if India's Government has not paid attention to delivering social protection. In fact, for a poor country, India appears to devote considerable resources (both financial and administrative) to social protection. The real problem appears to be the ad hoc and nonintegrated character of the social protection system, leading to low-quality coverage for most of the workforce including, paradoxically, workers in the organized sector. Similarly, while a few educational institutions have done a remarkable job in imparting high-level skills to an elite group of students (for example, in engineering, medicine, biotechnology, finance, and management), the overwhelming majority of India's skills-generating infrastructure seems to be sustaining a low-level equilibrium wherein few useful skills are developed and supplied and firms are consequently forced to rely on a less productive workforce.

Fortunately, these "stylized facts" on India's labor markets are leading to a vigorous debate on labor laws, social protection systems, and skills-related issues. However, the empirical analysis that is informing these debates needs to be improved. In particular, empirical work examining the impact of India's labor laws has not paid enough attention to issues of enforcement. How firms react to labor laws has a crucial bearing on final outcomes. Although there is anecdotal evidence on this, much more systematic work needs to be carried out. For example, one can find many individual accounts of violations of labor laws carried out so easily as to suggest that any "distortionary" effects associated with noncompliance are minimal. It is as if the law simply did not exist. On the other hand, one also hears reports of large-scale investments in manufacturing being held back by labor laws.

Gaining a better understanding of the interplay between labor laws and enforcement issues will have at least two benefits. First, we are likely to get a more realistic assessment of the actual impact of labor laws on outcomes. Second, better understanding can contribute to better-designed labor laws, that is, labor laws that not only protect the welfare of labor but also promote better governance and industrial relations, and give firms the flexibility to grow and react to market conditions as required.

How should such research be carried out? The analysis of secondary data on industrial outcomes should continue with obvious refinements—such as incorporating measures of enforcement into the analysis. However, new approaches are urgently required. One such approach would be to administer well-designed and focused questionnaires to key stakeholders. In the case of company managers, the questions asked should not be sensitive to initial conditions.[50] Rather, they could focus on the evaluation of common managerial tasks relating to "reallocating work," "disciplining misconduct," "deciding on annual wage increases," or "going to the dispute settlement body."

It would also be important to survey workers who lost their jobs in the 1990s to determine how they have coped with job loss.[51] Such a survey is likely to shed light on social protection issues—a key area where much more research is needed.

Indeed, as argued above, the reform of Indian labor laws needs to include and go hand in hand with a much better system of social protection. A whole gamut of issues needs to be addressed by research. The issues range from the very broad to the narrow. An example of the former would be research that informs national policy on social protection, tackling in particular the fractured nature of the current system and the extension of social security to the unorganized sector. The narrower issues would include research on best practices for providing health care, the feasibility of introducing an unemployment insurance scheme, and improvements in the design and implementation of active labor market policies, including public works programs, self-employment programs, and labor market information systems.

With such policy-relevant research, the debates on labor laws, social protection systems, and skills-related issues will be in an excellent position to bring about a holistic set of labor market reforms. Such a set of reforms is probably the best way to guarantee that market-oriented reforms in India generate not only high growth but also a much wider share in this growth for the country's workers.

# Appendix 5.1

### Major Labor Laws in India

## I. Industrial Relations Laws

| Legislation | Aim | Coverage |
|---|---|---|
| Industrial Disputes Act, 1947 | Provides machinery and procedures for the investigation and settlement of industrial disputes. | Applies to an existing industry. Coverage extends to the whole of India. |
| Trade Unions Act, 1926 | Seeks to confer a legal and corporate status on registered trade unions. The act provides immunity from civil and criminal liability for trade union executives and members engaged in bona fide trade union activities. | Applies to the whole of India. |
| Industrial Employment (Standing Orders) Act, 1946 | Regulates the conditions of recruitment, discharge, dismissal, disciplinary action, holidays, etc., of workers. | Applicable to those industrial establishments/undertakings wherein 100 or more workers are employed or were employed on any day of the preceding 12 months. Scope extends to the whole of India. |

## II. Wage Laws

| Legislation | Aim | Coverage |
|---|---|---|
| Minimum Wages Act, 1948 | Fixes minimum rates of wages in certain specified employments. | Extends to the whole of India. Appropriate government (central or state) to fix minimum wages. The appropriate government is empowered to extend the application of the act to other employments. |

| | | |
|---|---|---|
| Payment of Wages Act, 1936 | Aimed at ensuring regular and prompt payment of wages and preventing the exploitation of wage earners by prohibiting arbitrary fines and deductions from wages. | Extends to the whole of India and primarily to manufacturing establishments using power and employing 10 or more workers or employing 20 or more workers if not using power. An employee under the act is any person employed at a monthly wage of not more than Rs1,600. |
| Payment of Bonus Act, 1965 | Provides for the payment of bonuses to persons employed in certain establishments, and for matters connected therewith. | Extends to the whole of India. An employee under the act is any person (other than an apprentice) who is employed at a monthly wage/salary of not more than Rs6,500. |
| Equal Remuneration Act, 1976 | Provides for the payment of equal remuneration to men and women workers and for the prevention of discrimination on the grounds of sex against women in the matter of employment, and for the matters connected therewith or incidental thereto. | Extends to the whole of India. |

**III. Social Security Laws**

| Legislation | Aim | Coverage |
|---|---|---|
| Workmen's Compensation Act, 1923 | Requires employers to pay compensation to their workers for accidental injury caused to the workers arising out of and in the course of employment, resulting in death or in total/ partial disablement. | Extends to the whole of India and applies to certain categories of railway servants and workers employed in any capacity specified in schedule II of the act, which includes factories, mines, plantations, mechanically propelled vehicles, construction work, and certain other hazardous occupations. |

| | | |
|---|---|---|
| Employees' State Insurance Act, 1948 | Provides for certain benefits to employees in case of sickness, maternity, and employment injury, and other related matters. | Extends to the whole of India except the State of Sikkim and applies to all factories employing 10 or more workers (using power) or 20 or more workers (not using power), and service activities like shops and hotels employing 20 or more workers. The coverage is restricted to those persons whose total monthly remuneration does not exceed Rs6,500. |
| Employees' Provident Funds and Miscellaneous Provisions Act, 1952 | Provides for the setting up of compulsory provident funds for employees in factories and other establishments. | Extends to the whole of India except the state of Jammu & Kashmir. J&K instituted a separate provident fund scheme, effective 1 June 1961. The act extends to all factories and other establishments of any notified industry that employ 20 or more workers. The wage ceiling for coverage under the provident fund scheme is Rs6,500 per month. |
| Maternity Benefit Act, 1961 | Aims to regulate the employment of women in certain establishments for certain periods before and after childbirth and provides for maternity benefits and certain other benefits. | Extends to the whole of India and applies to every factory, mine, and plantation, except the factories and establishments to which provisions of the Employees' State Insurance Act, 1948, are applicable. |
| Employees' Pension Scheme, 1995 | Provides for the payment of monthly pensions in case of contingencies like superannuation, retirement, permanent total disablement, or death during service. | Extends to all persons who were members of the Family Pension Scheme, 1971. It is also compulsory for persons who became members of the provident fund after 16 November 1995. |

| | | |
|---|---|---|
| Payment of Gratuity Act, 1972 | Provides for the payment of gratuity to employees in factories and establishments. | Extends to the whole of India except Sikkim and plantations in the state of Jammu & Kashmir. It applies to every factory, mine, oil field, plantation, port, oil company, and shop or establishment in which 10 or more workers are employed or were employed on any day of the preceding 12 months. There is no wage ceiling for coverage under the act. The maximum amount obtainable under the act is Rs350,000 per employee. |

**IV. Welfare Laws**

| Legislation | Aim | Coverage |
|---|---|---|
| Factories Act, 1948 | Aims to ensure adequate safety measures and to promote the health and welfare of the workers. | Extends to the whole of India and applies to all manufacturing establishments employing 10 or more workers (for establishments that use power), or 20 or more workers (for those not using power). |
| Mines Act, 1952 | Aimed at providing safe and proper working conditions in mines and certain amenities to the workers employed therein. | Extends to the whole of India. |
| Plantation Labour Act, 1951 | Aims to secure the welfare of labor on plantations and to prevent their exploitation by regulating conditions of work. | Applies to the whole of India except the state of Jammu & Kashmir. |

| | | |
|---|---|---|
| Mica Mines Labour Welfare Fund Act, 1976 Limestone and Dolomite Mines Labour Welfare Fund Act, 1972 Iron Ore Mines, Manganese Ore Mines and Chrome Ore Mines Labour Welfare Fund Act, 1976Iron Ore Mines, Manganese Ore Mines and Chrome Ore Mines Labour Welfare Cess Act, 1976 Beedi Workers Welfare Fund Act, 1976 Beedi Workers Welfare Cess Act, 1976 Labour Welfare Fund Laws (Amendment) Act, 1987Dock Workers (Safety, Health and Welfare) Act, 1986Building and Other Construction Workers (Regulation of Employment and Conditions of Service) Act, 1996Building and Other Construction Workers Welfare Cess Act, 1996 | Aim to constitute welfare funds in the concerned sector to meet certain welfare requirements of the employees. | Applies to the concerned industries throughout the country. |

**V. Laws Targeting Specific Categories**

| Legislation | Aim | Coverage |
|---|---|---|
| Bonded Labour System (Abolition) Act, 1976 | Aims to provide for the abolition of the bonded labor system with a view to preventing the economic and | Extends to the whole of India. |

| | | |
|---|---|---|
| | physical exploitation of the weaker sector of the people, and for matters connected therewith or incidental thereto. | |
| Child Labour (Prohibition and Regulation) Act, 1986 | Aims to prohibit the engagement of children (below 14 years of age) in certain employments and to regulate the conditions of work of children in certain other employments. | Extends to the whole of India. |
| Contract Labour (Regulation and Abolition) Act, 1970 | Regulates the employment of contract labor in certain establishments and provides for its abolition in certain circumstances. | Extends to the whole of India. The act applies to (i) every establishment in which 20 or more workmen are employed or were employed as contract labor on any day of the preceding 12 months, and (ii) every contractor who employs or employed 20 or more workmen on any day of the preceding 12 months. |
| Inter-State Migrant Workmen (Regulation of Employment and Conditions of Service) Act, 1979 | Aims to regulate the employment of interstate migrant workmen and to provide for their conditions of service and for matters connected therewith. | Extends to the whole of India and applies to every establishment in which five or more interstate migrant workmen (whether or not in addition to other workmen) are employed or were employed on any day of the preceding 12 months. It also applies to every contractor who employs or employed five or more interstate migrant workmen on any day of the preceding 12 months. |
| Shops and Commercial Establishments Acts | Aim to regulate the conditions of work (daily and weekly hours of work, payment of wages, overtime, annual leave, etc.) of employees engaged in shops and commercial establishments. | Cover shops and commercial establishments, restaurants, hotels, and places of amusement in certain notified urban areas. |

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## Notes

1. The growth estimates are from World Development Indicators (online) and the employment estimates are based on Planning Commission (2001), Table 2.13.

2. These wage differentials are based on an analysis of National Sample Survey data. See Section 5.3 for more details.

3. See ADB (2004) for the experience of Asian countries in poverty reduction.

4. This section is based on Nagaraj (2001).

5. This background material has been discussed in detail in Bhagwati (1993) and elsewhere.

6. The ideology of the freedom struggle was not as monolithic as it would seem from this discussion. It had at least two main strands. The first, dominant strand was influenced by the Soviet experience and socialist discussion. The second strand was reflected in what is termed as Gandhian economics. While it was not sufficiently influential in the overall scheme as developed in the 1950s, it played a critical role in later developments. A major aspect of this was a distrust of modern technology and a concern for social welfare and for the needs of the poor.

7. See, for example, the Monopolies and Restrictive Trade Practices Act, 1969.

8. For example, banks were nationalized in 1969, followed by the insurance sector,

9. Disinvestment refers to the sale of government equity without giving up managerial control.

10. Detailed information on labor force and employment issues comes from the employment-unemployment survey of the National Sample Survey Organization (NSSO). The NSSO has been conducting stratified random sample surveys of more than 100,000 households every 5 to 6 years since 1972/73. These large-sample, or "quinquennial round" surveys, have two main components: a "consumption expenditure" component and an "employment-unemployment" component. The latter gives the standard data for analyzing aspects of the Indian economy related to the labor force (although the Indian census also provides useful information on the labor force). Much of this section uses the last four large-sample surveys. These were carried out in 1983 (January–December), from July 1987 to June 1988, from July 1993 to June 1994, and from July 1999 to June 2000.

11. This estimate of the labor force is based on the "usual principal and subsidiary status" definition of the labor force (see Box 5.1 for details of the various definitions). Between the quinquennial rounds, the NSSO also carries out thin-sample, or "annual

round," surveys of household consumption expenditure. Some of these surveys also collect data on the labor force. The latest thin-sample employment-unemployment survey (NSSO 2005) estimates the labor force in 2003 at 417 million. Other sources provide slightly different estimates. Adjustments made in population estimates from National Sample Survey (NSS) sample data to conform to census-based population estimates account for some of the difference.

12. There is a very small overlap between the organized sector and the agricultural sector, as plantations would be part of the organized sector. In 1999/2000, the organized sector accounted for only 0.6% of total agricultural employment (Planning Commission 2001, Table 2.13).

13. According to the National Accounts Statistics of India, the organized sector comprises employment in the public sector and recognized educational institutions and employment in enterprises registered under the Indian Factories, Bidi and Cigar Workers, Co-operative Societies and Provident Fund acts. The rest of the workforce is classified as being in the unorganized sector for statistical purposes (ADB 2003).

14. Decennial population census data are widely used in studying migration. The census questionnaire records information on (i) the place of last residence and (ii) the length of stay at the place of enumeration. These questions are decidedly inadequate for an understanding of all aspects of migration.

15. Remittances to India in 2004 totaled $21.7 billion (World Bank 2005).

16. Srivastava and Bhattacharya (2004) have put together NSS data on this issue. Contrary to their claim, a close reading of the data does not seem to suggest a speeding up of male migration.

17. Official poverty estimates are based on the large-sample rounds of the NSS. The thin-sample NSS rounds carried out between the large-sample rounds are not used by the Government in estimating and presenting official poverty statistics.

18. Given the serious difficulties in price adjustments, some studies have alternatively looked at "nutrition poverty"

—the proportion of the population that is not getting the minimum desired level of nutrition, based on the direct count of calorie intake (see, for example, Meenakshi and Vishwanthan 2003). On this basis, nutrition poverty increased from 64% in 1972/73 to 76% in 1993/94. But nutritional measures are flawed because they do not factor in the income effect (of rising incomes and price subsidies) leading to shifts to higher-quality grains like wheat and rice.

19. Since the thin-sample surveys of the NSSO do not provide information on employment and unemployment based on current daily status, there is no information on unemployment rates on CDS basis. Nevertheless, estimates for more recent years by the Planning Commission, based on the observed relationship between output and CDS employment between 1993/94 and 1999/2000, suggest that the unemployment rate was as high as 9.11% in 2004 for the country as a whole (Planning Commission 2005).

20. The wage data reported here pertain to the primary activity of responding workers. Additionally, because the NSS surveys record the time spent on any activity only in terms of 4-hour half days, the hourly rates reported here are by necessity approximations.

21. Wages for rural male workers were missing for a large number of observations.

22. The statistics pertain to only those wage and salaried workers whose reported wages pass certain data checks. In particular, they exclude workers reporting zero wages as well as those whose wages were in the lowest 0.1 and highest 0.1 percentiles. All statistics are based on weighted individual data (using household sample weights).

23. There are four sources of information on agriculture wages in India: the official series of the agriculture ministry, the large-sample NSS surveys, annual cost-of-cultivation surveys, and Rural Labour Enquiry reports. However, the official series and the NSS survey data are the most widely used series.

24. For details see Sundaram (2001) and reports of the task force and the special groups on employment.

25. Organized sector employment was 7.93% of total employment in 1983, 7.93% in 1988, 7.31% in 1994, and 7.08% in 2000.

26. Organized sector employment was 57.1% of total regular wage and salaried employment in 1983, 55.1% in 1988, 55.4% in 1994, and 50.9% in 2000.

27. Wages thus set are said to become the norm for the rest of the public sector, if not for all of the organized sector (Anant and Sundaram 1998).

28. For example, the public sector hires many highly qualified engineers and scientists for capital- and skill-intensive enterprises and research institutions.

29. Strictly speaking, if workers were categorized into three types on the basis of their educational attainments (unskilled, semiskilled, and skilled), India could well be categorized as an unskilled labor–abundant country. However, improved enrollment rates among the young and the entry of literate youth into the labor force are making semiskilled labor the abundant factor.

30. These data are based on the economic census. Unfortunately, similar breakdowns from the economic census of 2001 are still not available.

31. For a summary of the debate on this issue, see Nagaraj (2004).

32. The terms production workers and nonproduction workers are referred to as workers and supervisors, respectively, in Annual Survey of Industries data.

33. Strictly speaking, the wage bill accrues to production workers while emoluments accrue to production and nonproduction workers in the Annual Survey of Industries terminology. Emoluments of nonproduction workers reported here were computed by subtracting wages of production workers from total emoluments and dividing the result by the number of nonproduction workers.

34. The wage share figures are based on data from the entire factory sector, and not just the manufacturing sector. However, the trends for the former are driven by the latter since manufacturing accounts for around 90% of factory sector employment.

35. Adjudication refers to the form of dispute resolution whereby the parties to the dispute present evidence and arguments to the state (or an agency of the state). The state has the power to deliver a binding decision.

36. Juridification as used here refers to an increase in formal law and greater involvement of courts and the legal profession.

37. The term "layoff" refers to a temporary or seasonal dismissal of a group of workers due to slackness of current demand. "Retrenchments," on the other hand, denote permanent dismissals of a group of workers. Finally, "closure" refers to the closing of an establishment and the permanent dismissal that this leads to.

38. The living wage is higher than the fair wage. It is hard to define explicitly.

However, it pertains to wages which would provide a decent living standard to the worker and his or her family.

39. There were about 44,309 registered trade unions in 1985 and 59,198 in 1997.

40. The data on unions submitting returns and average membership were derived by summing up state-level data on these variables reported in various issues of the Indian Labour Yearbook.

41. Moreover, the assumption that the labor laws are necessarily protective of labor may not be valid. A more nuanced reading of the laws might reveal the ways in which protective provisions are diluted or counterbalanced by provisions favoring employers.

42. A supplement to the original World Bank survey carried out in two states with a good investment climate and one state with a poor investment climate was aimed at determining the reasons behind overstaffing. The results indicated that overstaffing was partly a result of labor hoarding in anticipation of higher growth in the future in the states with a good investment climate, but hardly so in the state with a poor investment climate. In fact, labor regulations were noted as a major reason for overstaffing in the latter. This lends indirect support to the notion that, given Maharashtra and Gujarat's ranking as states with the best investment climate, labor regulations have in effect been less binding on firms than the amendments to the Industrial Disputes Act may suggest.

43. A more elaborate discussion may be found in Anant et al. (1995).

44. See the discussion in Anant and Sankaran (2003) for an elaboration of ILO fundamental principles and rights at work.

45. For example, social assistance and welfare schemes may provide cash or in-kind transfers to vulnerable groups such as victims of natural disasters and handicapped people.

46. The council was up to coordinate between government and civil society for the Government's National Common Minimum Program. The draft bill was submitted by the council to the Government in November 2005.

47. The JRY was launched on 1 April 1989 by merging the National Rural Employment Program (NREP) and the Rural Landless Employment Guarantee Program (RLEGP) (see Figure 5.13).

48. The program can commence only after the NREG Act has been notified.

49. An approximate average of state-specific minimum wage rates is Rs60 per day.

50. For example, managers may have already taken into account Indian labor laws before making key production decisions. In that case, the question whether current employment levels are optimal or not is unlikely to be very illuminating. This is because a company may have already chosen a capital-intensive production process or product line to minimize hiring workers in the first place.

51. Useful questions to answer would relate to issues such as whether workers have received their severance payments in the correct amounts and on time. Did they get the promised retraining support and assistance in finding jobs?