

# **Dynamics of India's Labour Market**

**Lalit K. Deshpande**

Professor(retired), Economics Department, Mumbai University. Email: [sudhalalit@yahoo.co.in](mailto:sudhalalit@yahoo.co.in)

*Labour, Employment and Economic Growth in India,*

Edited by K. V. Ramaswamy;

Cambridge University Press, New Delhi;

2015, Pp 339.

This highly academic volume presents an analysis of development experience relating to labour, employment, and economic growth in the recent past, specifically in the years 1980 to 2000. K V. Ramaswamy, the editor was not happy with the debate that took place then. According to him, the debate was narrowly focussed on issues like jobless growth, informal manufacturing, specific labour laws, informalisation of employment, information technology and growth of the service sector. These papers were discussed in two seminars held at the IGIDR. The finished products appear in this volume.

The salient feature of the book is Ramaswamy's comprehensive introduction and review of issues. Without this review, the book would have been difficult reading. The book is divided into two parts. The first part deals with structural transformation and growth of employment. The second deals with legal issues related to the definition of the industrial worker through the lens of economic theory; how judiciary (the Supreme Court) has interpreted labour laws and workers' protection in the years of economic liberalization. I am surprised to find that Ramaswamy does not refer to inequality in his otherwise comprehensive introduction. In fact, there is no reference

*eSS Reviews, Deshpande on Ramaswamy* 1

to inequality in most of the articles and the miss is particularly inexcusable because inequality reduces growth, which is analytically an important variable under observation. I am reminded of Mazumdar and Sarkar (2008) authored '*Globalization, Labour Markets and Inequality in India*', a book which reads like a companion volume to this book.

In most of the theories of economic development, inequality is considered inevitable as the population moves from less productive agriculture to more productive non-agricultural sectors and activities in industry and services. The Indian developmental model differs from East Asian and Chinese model in which the move is from agriculture to industry. The Indian model skips industry, and the movement is from agriculture to services. The difference between the two models explains why the non-agricultural sector in India failed to absorb surplus manpower from agriculture as fast as it did in East Asia and China. The high share of agriculture in employment continues to be a dominant feature in India. It also explains the enormity of the challenge of absorbing labour in employment. According to the World Bank estimate, India needs to create 10 million new jobs annually for the next ten years to absorb the additions to the working-age population. The severity of the problem can be understood by noting that the Indian economy has created only 2.5 million jobs per year during the period 2005 to 2012. Even if we overcome this challenge we would have to face other challenges of distributing the addition over productive sectors and activities.

The volume offers as many scenarios as there are contributors. Each paper has something new to say. For instance, Jayan Thomas assures that the recent decade was not jobless as believed by many. Hasan, Lamba and Sen Gupta show that growth in India is inclusive, though considerable scope exists to increase its impact on poverty reduction. The increase in productivity, whether by within sector or by sectoral change is a permissive factor in poverty reduction. The poor should have the bargaining strength or any other compulsive force to appropriate their share in the increased productivity. Narayana in his paper argues that population aging may not have negative implications on India's economic growth because all elderly individuals are not out of labour force. Many work in the informal sector where there is no retirement age. Das, Sen, and Das in their paper conclude that there has been a continuous decline in the levels of labour

*eSS Reviews, Deshpande on Ramaswamy* 2

intensity in labour intensive industries. Golder and Aggarwal draw attention to a new dimension of gender discrimination specifically, in tenure . To be a woman and a casual worker is to be a victim of a double whammy.

As always, the volume is embellished by Ajit Ghose's paper entitled, 'Services-led Growth and Employment in India'. He compares the economic policies that India followed with those followed by two samples of developing countries. He finds that most countries followed manufacturing-led growth whereas we received services-led growth as a colonial legacy. This policy was continued and strengthened in free India. The British economists and the governments professed free trade but practiced protection. They believed that Britain had a comparative advantage in manufacturing and India had it in agriculture. This explains why manufacturing did not develop in India (Chandra, 2009). On the other hand, America after independence protected its manufacturing from competition. In fact, it is very difficult to find any country that developed its industry without protection (Reinert, 2007).

In India, strengthening of services-led growth in the post-independence period was the result of a policy decision of the government. Ghose argues that the government influenced supply and demand sides so as to make capital cheaper and labour dearer than they would otherwise be. The organized sector of the economy steadily acquired a comparative advantage in the production of capital and skill-intensive products. Certain other policies, such as tax policies, development of physical infrastructure, trade and foreign investment policies constrained manufacturing far more than services. In short, India's premature services-led growth has very much been a product of policies. This is the supply side story.

To this, Ghose adds the demand side. Contrary to the widely held perception, growth of services was driven primarily by growth in domestic final demand and not by growth of exports. Two particular developments explain this. The '*electronics revolution*' producing new and relatively cheap products had caused a shift in the expenditure pattern of all income groups in favour of services. Concurrently income inequality had also been growing.

Contrary to another widely held perception India's services-led growth had not been jobless. In organised and unorganised sectors, all types of services recorded rapid growth of employment. Real wages of both regular-formal and casual employees have increased though the former has gained much more than the latter. And while self-employment has remained the dominant form of employment in the economy, real incomes of self-employed increased significantly. What remains true is that the share of services in total employment has remained low in relation to their share of GDP. Here is the colonial legacy that more than sixty years of development has not undone.

Will service-led growth be sustained even if the existing policy biases are maintained? . The answer is yes, but only at much lower level. The slowdown of growth in the developed world and the emergence of other players such as China and the Philippines in software services will make it difficult to sustain the high growth of service exports. It is true that many services other than software services - medical, education, finance, travel, transportation etc are being increasingly traded. But it is not clear whether the ability to export these services can be easily and quickly developed.

Ghose concludes that sustaining economic growth would require a transition from service-led to manufacturing-led growth. This is all very well. The hitch is that it is very difficult to find in history a single instance of a country that industrialised itself without protection. WTO, are you listening? The second part of the book contains four papers that take up different aspects related to labour market rigidity and labour laws in India. Saha discusses theoretical issues surrounding labour market rigidity. He notes that labour law restrictions have forced firms to take recourse to flexible practices such as hiring temporary and contract workers and outsourcing. But the practice has allowed flexibility. Saha calls this outcome, imperfect flexibility. Ramaswamy takes an entirely empirical approach to studying the impact of employment protection legislation on workforce composition within firms in Indian manufacturing. Labour regulations like employment protection legislation are size-dependent and therefore constitute a basis for threshold effects. The analytical idea of threshold effects is that if labour legislation changes discontinuously at the threshold employment size it should result in a discontinuous change in

*eSS Reviews, Deshpande on Ramaswamy*

firm's behaviour. The higher the costs of compliance, above the threshold the greater, are the change, in the behaviour of firms. Singh argues for a more nuanced understanding of the role of labour market reforms in India.

He surveys theoretical perspectives, both economic and legal, on the relationship between the firm, workers and the boundaries of the firm. The subtle difference in the perspectives matters because reform is apparently centred on the contractual employment relationship between the employer and the employee. India follows the common law tradition where court judgements have a substantive role in making and unmaking of labour laws through their interpretation and judgements in cases involving labour disputes. In the background of India's economic transition and liberalisation policies that demand international change, the approach of the Supreme Court in India towards labour rights assumes critical importance. Ramapriya Gopalakrishnan examines the approach of the Court over the last decade and a half to collective as well as individual labour rights issues of workers in the formal as well as informal sectors. She asks upfront as argued by some critics, whether the Court in the last decade has inclined towards adopting an anti-worker stance and overly sympathetic to the market orientation of economic policies that favour employers.

The objective of different papers in this volume has been to shed light on important selected aspects of the problem of labour and employment in recent years of economic growth and policy change in India. Papers in this volume have made a positive contribution to the literature on labour market issues. And the best that one can do is to join Ramaswamy and hope that this would encourage further research and informed contemporary discussion on policies related to growth and employment in India.

## References:

Chandra, Bipan. 2009. *History of Modern India*. (Hyderabad: Orient BlackSwan Private Limited)

Mazumdar, Dipak and Sarkar Sandip. 2008. *Globalization, Labour Markets and Inequality in India*. (New York & Ottawa: Routledge)

Reinert, Erik. S. 2007. *How Rich Countries Got Rich .... and Why Poor Countries Stay Poor*. (New York. Carroll & Graff Publishers)

eSocialSciences