Macroeconomic reforms and a labour policy framework for India

Jayati Ghosh

Revised January 2002

I. Introduction

This paper is concerned with the interaction of macroeconomic and labour market policies, in the specific context of India. This focus is not a new one, but it has assumed a new significance with the processes of globalisation and internal reform policies that have impinged on India, along with other developing countries, in the recent past. It is now more than two decades since policy makers across the world began to adopt policies that involved greater integration with international markets in various ways, including liberalisation of trade and capital markets and various forms of internal deregulation as well. These national policies in most countries were so widespread, so similar to policies in other nations and so different from the immediate past that they have effectively spawned what is currently described as "globalisation", at least in the economic sphere.

The phase of globalisation was widely anticipated to bring with it substantial benefits in terms of higher growth rates and greater convergence of incomes across and within regions and countries. However, this expectation has largely been belied, both for the world economy as a whole and for most of its constituent member economies. For some time now, it has been evident that strategies of liberalisation, deregulation and privatisation of a range of goods and services that were earlier in the public domain, have not delivered higher growth rates of output or employment. Nor have they implied greater convergence of incomes. In fact, they have not even meant higher rates of employment generation for developing countries which were expected to gain substantially at least in this regard. One important result that the greater freedom accorded to capital mobility was supposed to deliver, was the greater flow of investible resources to those developing countries in greatest need of it. But this has not happened either.

The mainstream explanation for all this has involved isolating particular aspects of the implementation of liberalisation strategies in individual countries, in terms of their extent, differential incidence across sectors, pace, sequencing and timing, and so on. However, this explanation is not satisfactory, because it has been difficult to explain the extent of lack of success in growth and investment terms, through any or all of these. Countries with very divergent, even opposing experiences in this regard, have all faced similar problems of volatility or paucity of capital inflow, inadequate benefits from liberalised trade, and poor employment growth.

Quite simply, across the world and especially in most developing countries, it appears that private capital has not responded as anticipated to the extensive liberalisation measures that have been undertaken in its favour. There could be at least two alternative sets of reasons for this. The first could be that in fact the policies of liberalisation and market deregulation (whatever may be the merits of individual cases) have missed out on some crucial elements that remain significant for expansionary capitalism. The most important of these is that these policies have given inadequate attention to the crucial role of the state in terms of creating the basic conditions for profitable economic activity and employment generation, ensuring adequate effective demand as well as minimising supply bottlenecks, and regulating markets to ensure their smooth functioning. The second possible reason, which is the one most commonly highlighted by neoliberal reform-minded economists, is that even the extensive reforms undertaken so far have been inadequate; they have not addressed some of the more politically difficult areas such as labour market policies and institutions, which can serve as major impediments to private investment. The failure to reform domestic labour markets is thus seen, in this perception, as the major cause for the relative lack of success of neoliberal reform programmes in developing countries and even in the world economy as a whole.

This latter argument needs to be taken very seriously, not only for its own merits, but because it is the one that currently seems to exercise the most influence with the governments of many developing countries, including India. It is interesting to note that whereas in the international media at present the Indian economy is most frequently cited as one of the "success stories" of the phase of globalisation, because of its relatively steady and moderately high average rate of growth (at around 5.5 per cent per annum since 19901) and its apparent ability to avoid violent crisis along the lines of some other emerging markets, the perception *within* India regarding the success of the neoliberal reforms is quite different. Even advocates of the reform process within India admit to some major inadequacies: the aggregate rate of growth has not been up to expectations; private investment has not occurred at the predicted pace; inadequate and falling employment generation has been a major failure. Critics of the reform process have, in addition, pointed to growing imbalances in the Indian economy that can have very serious negative consequences: the neglect of infrastructure spending; the increase in income inequalities; the crisis in the food economy with huge surpluses of public foodgrain stocks coexisting with widespread hunger and malnutrition as well as livelihood insecurity of cultivators; the significant decline in per capita calorie consumption at the national level over a period in which per capita GDP nearly doubled.

A point of general concern has been the slow rate of growth of the material producing sectors, and the falling employment elasticities associated with such growth. While employment in the services sector has increased, it has not been sufficient to offset the general decline in job growth, and since this sector is a residual conglomeration of many very different activities, employment growth in this sector can reflect both positive and negative tendencies.

It is in this particular context that the argument (which, as mentioned above, tends to have wider resonance) is made that investment has been constrained, and employment growth has been insufficient, because of rigidities in the labour markets that adversely affect employers' sentiments particularly as regards organised sector activities. Three types of regulation are seen as especially constraining for employers in the Indian context: first, fairly stringent rules relating to firing workers and also for closing down enterprises, along with requirements of reasonable compensation for retrenchment; second, laws governing the use of temporary or casual labour which enforce permanence of contract after a specified time of employment; third, minimum wage legislation which raises the cost of hiring workers.

These laws are essentially only applicable to a relatively small category of enterprises, which employ more than a specified number of workers. Typically, it is such enterprises that then enter the world of the "organised" sector, while all others remain small-scale, unorganised or informal in their categorisation. The organised sector within India is therefore defined by size of establishment in terms of number of workers, and a whole range of other regulation then follows, not only laws governing labour contracts. The neoliberal argument in this context is that these rules which restrict hiring and firing put undue pressure on larger employers and prevent smaller firms from expanding even when the economics of their situation otherwise warrants it. This creates a dualistic set-up in which the organised or formal sector necessarily remains limited in terms of aggregate employment and most workers, who remain in the unorganised sector, are therefore denied the benefits of any protection at all. The resulting dualism is characterised by an organised (or larger scale) sector, which has relatively low employment, and an unorganised (or smaller scale) sector, which has low investment. If aggregate economic activity is to break out of this dualism and marry the advantages of both sectors, the argument goes, it is necessary to get rid of the constraints put on large employers in the matter of labour relations.

This paper considers these issues in the light of recent Indian experience as well as the policy regimes that are in place and are being considered at present. The next section briefly examines some of the analytical issues that emerge with reference to both macro processes and particular economic policies, as well as the possibilities of maintaining basic goals with respect to rights and conditions of workers in the current national and international context. The third section contains an overview of the important elements of the Indian neoliberal economic reform process initiated at the start of the 1990s. In the fourth section, the Indian employment experience since the neoliberal reforms were started is considered. Aggregate trends are analysed, as well as specific labour market outcomes, and the issue of whether there is a trade-off between wages and employment levels is examined. The fifth section is devoted to a consideration of some of the existing policies governing labour relations and work contracts, as well as the recommendations of the Second National Labour Commission, which have just been released. The final section provides some conclusions from the earlier analysis and presents some guidelines towards a regulatory framework that would attempt to protect and provide rights to all workers within this context.

II. Analytical considerations

Macroeconomic policies obviously have multiple goals. They typically include goals related to the growth of output and its distribution, as well as the patterns of employment generated by such growth. In the recent past, a number of governments have tended to assume that employment generation will result from growth, and need not be a separate declared goal. However, recent experience in India and elsewhere suggests that such a belief need not be justified, and that the macroeconomic processes generated by certain patterns of growth can even be inimical to faster employment generation. In addition, there is the well-known potential conflict between the volume of employment generated and its quality. This is what has created the emphasis by the ILO on "decent work" rather than simply work.

The concept has been developed by the ILO in the following terms. "The primary goal of the ILO today is to promote opportunities for women and men to obtain decent and productive work, in conditions of freedom, equity, security and human dignity. Decent work is the converging focus of all of the ILO's four strategic objectives: the promotion of rights at work; employment; social protection; and social dialogue." (ILO 1999, Report on Decent Work) This in turn has certain implications, which are particularly relevant for present purposes:

1. It means that the policy concern must be with *all* workers, including those beyond the formal labour market, such as unorganised wage workers and those in non-formal sectors, the self-employed, and homeworkers. It further involves the recognition that all of those who work have rights, which must be respected and protected.
2. It requires that employment promotion become a central objective of macroeconomic policy, and that public policy must be concerned with finding ways to expand the opportunities for people to find productive work and earn a decent livelihood.
3. The notion of decent work however further requires the recognition that the goal is not just the creation of jobs, but the creation of jobs of acceptable quality. Since the quantity of employment cannot be divorced from its quality, the nature and conditions of work must be taken account of and sought to be continuously improved, especially for the more vulnerable categories of workers. It is equally important for policy to address the vulnerabilities and contingencies that take people out of work, whether these arise from broader factors such as structural or conjunctural unemployment and loss of livelihood, or person-specific factors such as sickness or old age.

The moot point, of course, is that all this is now sought to be achieved in an international context in which greater economic integration has drastically altered the contours of public policy as well as the requirements of employers. For most traded goods sectors, external competitiveness has become the basic requirement of survival and expansion, and a key element of this is seen by employers to reside in labour market flexibility. This in turn is often seen by some commentators to have created a "race to the bottom" in terms of wages and labour contracts, whereby even minimal labour standards are under threat because of the perceived adverse effects on employers through higher wage costs and rigidities. There is of course, a two-way relationship here: just as outward orientation or the need to allow domestic producers greater flexibility and lower wage costs may determine patterns in the labour market, so too, labour market reform itself may become an important complement to macroeconomic policy. This can occur through the ways in which such policies change incentives for both employers and workers, and even in terms of providing a social cushion for shocks like inflation, cyclical behaviour, etc., that emerge in the process of adjustment.[1]

It can be argued that the primary determinant of both the volume of employment and the conditions of employment that prevail in most sectors of any economy, are determined by factors other than labour market policies themselves. Indeed, typically policies that are addressed specifically to the labour market alone can be irrelevant or even counterproductive if other processes in the economy are generating certain opposing employment patterns. If the aggregate demand for labour is low because the economy is operating in an unemployment equilibrium with unutilised capacity, or because of structural reasons such as the pattern of technology, then new employment generation will depend on policies which address these issues directly. Similarly, attempts to improve labour's bargaining position only through legislation are likely to be much less effective in contexts of labour surplus and low demand, in which individual employers do not see additional profits to be gained through increased employment.

Let us consider the various ways in which macroeconomic processes and policies can affect labour market outcomes. In the short term, clearly, the level of employment is a function of the level of aggregate demand in the system, which in turn is dependent upon autonomous expenditure such as private investment and government spending. Quite apart from the direct multiplier effects of public expenditure, the positive association between public and private investment is now well established at an empirical level for most developing countries.[2] This means that one major determinant of the level of employment is the level of public expenditure. Under conditions of unutilised capacity in the economy, it operates directly to improve capacity utilisation, output and employment through the multiplier process. Even in other circumstances, it can play a positive role in terms of directly generating employment, easing supply bottlenecks for example in infrastructure, and through its positive linkage effects with private investment. When aggregate employment is consequently rising, it is usually also much less difficult for workers to struggle successfully for higher wages and better working conditions.

Of course, public expenditure is not the only determinant of aggregate employment, and in open economies it may not even be the most important determinant. Openness to trade and capital flows changes this obvious "closed economy" Keynesian relationship at several levels. First, it means that in most sectors the level of activity will also be affected by the relative degree of "competitiveness" which is turn determined by the combination of existing domestic costs and relative prices, the exchange rate, trade policies which affect relative prices at the border. Trade and exchange rate policies can

[1] It has further been argued (Ghosh 2002) that broader aspects of what is now called social policy can also serve the important purpose of social legitimisation of macroeconomic strategies and processes, and even for ensuring wider acceptance of the capitalist development project within developing countries where this project is still largely incomplete.

[2] See, inter alia, Serven and Solimano, 1994 and UNCTAD, 1998.

operate to shift private incentives, and therefore investment and employment, in favour of tradeables away from non-tradeables, or vice versa. Depending on the relative employment intensity of tradeables and non-tradeables, this can in turn change both the level of aggregate employment and its distribution across sectors. Similar outcomes can result from other policies that serve to shift incentives, such as credit and financial policies that direct credit or provide special incentives to particular chosen sectors.

Second, openness to capital flows, and associated financial liberalisation, can lead to changes in output and employment levels quite independent of any government measures, besides putting constraints on government behaviour in various ways. Financial openness, and the resulting need to attract or maintain levels of capital inflow, imply constraints on fiscal and monetary behaviour of governments, and dramatically reduce the possibilities for earlier Keynesian style demand management policies. It also means that medium term planning in the old style is no longer possible, since the level and direction of capital inflows cannot be predicted such as to allow for comprehensive investment allocation in socially desired directions. Further, in the past decade in particular, financial openness has been strongly associated with high levels of volatility and instability in the economies of several emerging markets. Periods of being found attractive by international finance coincide with capital-inflow led booms that may be reflected in real exchange rate appreciation. This can consequently change the domestic employment level and pattern through changes in domestic relative prices and therefore incentives. These outcomes can then in turn become the initial causes for a change in investor confidence that is followed by capital outflow, financial and economic crisis. It has been found that workers tend to bear a disproportionate part of the burden of the subsequent adjustment that is necessitated in these economies, through falls in real wages and large losses in employment.

A crucial link in the chain between investment and employment is the intermediating technological choice, which determines the pattern of labour use. It is often argued in developing countries, that policies that raise the cost of labour through regulation for organised industry, end up reducing employment because they encourage the greater use of labour saving technologies. This may in fact be a relevant concern. However, it must be recognised that in most developing countries, including India, technological choices and changes do not reflect domestic resource availability so much as the patterns determined by such changes in the North. These changes, which come in the form of new products and changed processes, which are desired by consumers and producers in developing countries, typically are more capital intensive. This is as dictated by the factor proportion requirements of developed industrial economies, as well as the more general evolutionary patterns of capitalism. Therefore, such advances generally imply improvements in labour productivity and lower use of workers per unit of output, quite independent of the relative price of labour in particular developing economies. The relative price of labour and capital at any one time is, therefore, a relatively poor guide to the degree of capital intensity of production.

Just as macro economic processes determine labour market patterns, such patterns in turn also affect the macro economic outcomes. Low levels of employment generation do not only result from, but also contribute to, low aggregate demand, and can therefore intensify tendencies towards stagnation or recession. Strongly segmented labour markets, with very different conditions of work and remuneration, can also create very different and segmented patterns of demand for final goods. Such segmented markets can also determine patterns of labour supply that affect possibilities of expansion of particular industries or sectors of activity. One school of thought extends this to argue that "rigidities" in labour markets affect private investment and therefore the overall level of economic activity, although the cross-country evidence for this is quite mixed. What is undeniable is that, in the absence of public intervention, low productivity patterns of economic activity tend to be associated with and to reinforce low rates of employment expansion, creating a scenario of economic stagnation. The issue then becomes what forms of public intervention are necessary to break this mould.

III. The elements of neoliberal economic reform in India from the early 1990s

The accelerated programme of neoliberal reform that was adopted in 1991 had two separate but interlinked aspects, of stabilisation followed by structural adjustment. The initial stabilisation component aimed at deflating the economy, reducing the rate of growth and curbing the 'excessive' demands that were being placed on India's limited pool of foreign exchange, in order to reduce the balance of payments deficit. Devaluation of the rupee, along with an initial period of import compression ensured with import curbs, was soon substituted with a deflationary stance that was expected to reduce domestic demand and absorption to levels where the import bill was sustainable. However, stabilisation was seen as a temporary strategy, inasmuch as the very act of stabilising the economy was expected to restore international investor confidence, increase access to foreign exchange and permit a higher rate of growth.

Conceptually, it was at this point that the second aspect of the programme, structural adjustment, was expected to take over. It was argued that renewed access to foreign exchange should not be used, as it had been earlier, to sustain higher expenditures by the state. Rather, since government deficits were seen as responsible for the crisis in 1991, the state should strive to reduce its deficits, essentially through expenditure curbs. Growth would be based largely on private initiative, as the release of private "animal spirits" would allow the economy's comparative advantage to be exploited. This in turn would mean the creation of internationally competitive capacities so that export production would provide the principal external stimulus to economic expansion. It was believed that in this environment, any temporary excess demand for foreign exchange would be redressed by the autonomous adjustment of a market determined exchange rate.

With the core objective of the programme phrased in this manner, the policies to be followed seemed to be obvious from a neoliberal perspective. The state's economic presence should be substantially reduced with the aim of curbing deficits. This would entail not only opening up new fields to the private sector, but also doing away with the bureaucratisation, over-manning and soft budget constraints typical of state enterprise. Imports should be liberalised not only to provide the domestic private sector with access to the capital goods, intermediates and raw materials needed to restructure and become internationally competitive, but also to expose it to the cutting edge of international competition. Domestic deregulation was seen as providing the flexibility required for restructuring and to allow market forces to play their role in disciplining economic activity. Greater freedom to international capital, both productive and financial, must be provided to increase access to foreign finance as well as to exploit the benefits of the improved technology, modern management practices and links to international markets that transnational firms offer. To ensure that private initiative would more than adequately replace the state as the locomotive of growth, tax policies would have to be rationalised and the tax regime rendered less "burdensome", so that the taxation regime did not act as a disincentive to save and invest. These parameters determined the large number of policy shifts that, over the 1990s, helped put in place a qualitatively new policy regime in India, and gave the liberalization of that decade its distinctive character.

Redefining the role of the State

The reduction of the fiscal deficit was central to both the stabilisation and structural adjustment components of the neoliberal reform package. This led to the formulation that the fiscal deficit of the government should be reduced from its record high of 8.3 per cent of GDP in 1990-91 to a targeted 3-4 per cent of GDP over a relatively short span of time. There were two factors that made this difficult. First, because the large increases in public debt that occurred in the 1990s were contracted on increasingly onerous terms, interest payments amounted to as much as one-third of the Central Government's revenue expenditures in 1991-92. These had to be met, and could be reduced only as fast as the growth in the volume of debt itself was curtailed. Meanwhile proposed financial liberalisation, which forced the government into more costly forms of market borrowing, meant that the cost of servicing any debt contracted would be higher. Second, since the tax regime was to be rationalised to do away with disincentives to save and invest for the private sector, deficit reduction could not be based on additional resource mobilisation, but would mainly involve cuts in expenditure.

It is important to bear in mind that these were not inevitable strategies; rather, they were options that were chosen because of essentially political choices about which groups of society would have to bear the burden of adjustment. Thus, the neoliberal reform programme effectively chose the interests of large capital over those of ordinary citizens whose access to productive employment opportunities as well as to public goods and services would deteriorate.

Given these self-imposed constraints, the government identified a number of means of dealing with the fiscal deficit. The first was to reduce expenditures other than those on interest payments, especially the expenditures of the government on subsidies and administration, both of which were considered excessive and reflective of inefficiency. The major item of expenditure that was supposed to be pruned was the outlay on subsidies, but other expenditures, such as capital expenditure, were the ones that were in actual fact cut back even more drastically.

Structural adjustment and liberalisation at the sectoral level

The principal aims of the structural adjustment policies adopted as a part of the reform process were: (i) to do away with or substantially reduce controls on capacity creation, production and prices, and let market forces influence the investment and operational decisions of domestic and foreign economic agents within the domestic tariff area; (ii) to allow international competition and therefore international relative prices to influence the decisions of these agents; (iii) to reduce the presence of state agencies in production and trade, except in areas where market failure necessitates state entry; and (iv) to liberalise the financial sector by reducing controls on the banking system, allowing for the proliferation of financial institutions and instruments and permitting foreign entry into the financial sector. As we have seen, these were based on the notion that greater freedom given to private agents and market functioning would ensure more efficient and more dynamic outcomes. Obviously, these aims had particular policy implications in the different sectors, which we consider below.

Industrial policy

Post-reform industrial policy moved in three principal directions. The first was the removal of capacity controls by "dereserving" and "delicensing" industries, or abolishing the requirement to obtain a licence to create new capacity or substantially expand existing capacity. As a result of the dereservation of areas earlier reserved for the public sector and the successive delicensing of industries, there were only nine industries for which entry by private investors was regulated at the end of 1997-98. This meant that domestic private investors were free to invest in capacity and production in a wide range of industries that were previously regulated, including heavy industries, automobiles and other sectors. By the end of the decade, dereservation had been extended into several areas earlier reserved for small-scale enterprises, thereby increasing the potential range of activity of large private capital.

The second area of industrial reform related to the dilution of provisions of the Monopolies and Restrictive Trade Practices (MRTP) Act, so as to facilitate the expansion and diversification of large firms or firms belonging to the big business groups. Prior to 1991, all firms and interconnected undertakings with assets above a certain size (which was pegged at Rs. 100 crore in 1985) had been classified as MRTP units that required special approvals to undertake new investments. The MRTP Amendment Bill removed the threshold limits with regard to assets for defining MRTP or dominant undertakings, thereby removing any special controls on large firms.

The third type of liberalisation in industry involved foreign investment regulation. The first step in this direction was the grant of automatic approval, or exemption from case by case approval, for equity investment of up to 51 per cent and for foreign technology agreements in identified high-priority industries. [3] Subsequently, the Foreign Exchange Regulation Act was modified so that companies with foreign equity exceeding 40 per of the total were to be treated on par with India companies. Further, Non-Resident Indians and overseas corporate bodies owned by them were permitted to invest up to 100 per cent equity in high priority industries, with greater freedom for repatriation of capital. Foreign investors were allowed to use their trademarks in Indian markets. The government – through the newly created Foreign Investment Promotion Board - was

[3] The condition for this freedom in technology agreements in high-priority areas was that royalty should not exceed 5 per cent of domestic sales (8 per cent of export sales) and lump-sum technical fees should not exceed Rs. 1 crore.

liberal in approving proposals and providing a high equity share to foreign investors going up to 100 per cent in many cases. Subsequently, automatic approval was allowed for foreign equity in excess of 51 per cent in certain sectors, for example up to 100 per cent in the pharmaceutical industry. There were also a range of fiscal concessions and incentives for mergers and acquisitions including those involving foreign firms.

The net result of all these manoeuvres was that interventionist barriers to entry of domestic and foreign investors into a number of industries were substantially diluted or done away with, resulting in what has been proclaimed as a much more competitive environment in the industrial sector. It was hoped that this more competitive environment would in itself induce higher rates and greater efficiency of investment and would thereby lead to accelerating industrial growth. An implicit assumption was that the beneficial effects of this would far outweigh any negative impetus of reduced public investment. While the actual effects of this strategy are not discussed here[4], it must be noted here that after an initial spurt led by an import-led consumer boom, growth rates in the industrial sector slumped once again and manufacturing industry has been in recession since mid-1996. This suggests that liberalisation *per se* was not enough to ensure high rates of growth of investment and productive activity, and that other strategies may be necessary to encourage the "animal spirits" of entrepreneurs.

Trade liberalisation

The major policy shift contributing to heightened competition in the domestic market was the liberalisation of the import trade. A distinguishing feature of the economic reforms of the 1990s was the effort to dilute import controls by rapidly reducing the number of tariff items subject to quantitative restrictions, licensing and other forms of discretionary controls on imports. In fact, most of these have since been abolished excepting in a very few industries. Along with this, there were continuous cuts in the tariffs rates on a wide range of commodities. The peak tariff rate fell from more than 300 per cent at the start of the 1990s to less than 40 per cent by 2001.

For the first half of the decade, the process of tariff reduction was not uniform across industrial sectors. Imports of capital goods and intermediates were the first to be substantially liberalised by placing them under the OGL category, by reducing tariffs and by offering concessional duties for "project imports" and imports allowed at zero duty subject to promises of exports to be realised. In the case of consumer goods, for most of the decade the government was more cautious, with regard to the shift away from quota controls and duty reduction. This was justified by revenue considerations and the "non-essentiality" of such goods given extant domestic production. However, over the three annual Export-Import Policies presented by the BJP-led government from 1998-99 onwards, there was complete liberalisation of the import of consumer goods. The removal of Quantitative Restrictions on agriculture goods also occurred at the run of the decade. By 2001, barring very few items that were typically seen as having strategic significance, the only form of protection afforded to the domestic productive sectors was that offered by tariffs, which were also simultaneously being reduced.

---

[4] Details of the effects of these strategies in different sectors can be found in C. P. Chandrasekhar and Jayati Ghosh, 2002.

Obviously, given the largely "closed" structure of the Indian economy over the broad post-Independence period, this was bound to have very significant effects on patterns of production and the viability of different types of economic enterprise. The government's aim was to restructure production towards areas of international "comparative advantage" (defined in static rather than dynamic terms). These areas were also seen as inherently more labour-intensive, which led to the further prediction that, after an initial brief period of net job loss, such a strategy of trade liberalisation would actually create more employment over time in more sustainable ways.

There are, of course, problems with such an argument. The first is the implicit assumption that international markets in most traded goods are actually free and competitive, and do not reflect the very extensive implicit and explicit subsidies provided by states across the world on various forms of production. This is obviously not the case, [5] and therefore the resulting patterns of trade may well be quite different from those anticipated on the basis of such an assumption. The second false premise is that capital and labour can move (with relatively little cost) from one activity to another and enable structural transformation through trade. But the most significant assumption of all is rarely mentioned in the literature. The basic neoclassical theory of gains from trade utilising comparative advantage assumes full employment, and it is very clear from recent theoretical work that the normative results of such theory are dramatically altered once it is recognised that the economy need not settle at full employment. [6] There are other crucial assumptions relating to the nature of technology and economic organisation. Recognising the existence of economies of scale and learning effects allows for the possibility of dynamic comparative advantage that may require quite different policy responses. Thus, free trade does not necessarily emerge as the best policy choice for an industrialising economy, and trade liberalisation may well lead to aggregate production effects that are negative. If these affect incomes such that consumption levels are also affected, then the case for unilateral trade liberalisation becomes theoretically much more problematic.

Since the basic assumptions underlying the trade reform were not valid in the Indian context in this period, it is not surprising that the actual effects of such liberalisation were quite different from those anticipated. As mentioned earlier, the brief spurt in industrial activity in the mid-1990s followed by the subsequent recession in manufacturing can be related at least partly to the effects of import liberalisation. Meanwhile, the trade strategy did not entail a major positive shift in the structure and growth of production or exports. Instead, most Indian producers have experienced an erosion of competitive position (in both export and import markets) even as their costs have continued to rise in important areas such as infrastructure and finance.

---

[5] The very extensive state support to agriculture in many developed countries is well known, but there are many forms of implicit subsidy of other forms of production which are no so widely recognised. Thus, lower interest rates on average, cheaper and better quality infrastructure provision and so on, contribute to lower costs for individual exporters in any country, and obviously affect international competitive conditions for producers in other countries who do not access to similar conditions.

[6] See, for example, Krugman (1994), Rodrik (2000) and Stiglitz (2001).

Reforms in agriculture

The economic reforms did not include any specific package specifically designed for agriculture. Rather, the presumption was that freeing agricultural markets and liberalising external trade in agricultural commodities would provide price incentives leading to enhanced investment and output in that sector, while broader trade liberalisation would shift intersectoral terms of trade in favour of agriculture. However, there were other changes in patterns of government spending and financial measures that also necessarily affected the conditions of cultivation, often in ways very different from those that were anticipated by the architects of the reform process.

The post reform strategy involved the following measures that specifically affected the rural areas:

- Actual declines in Central government revenue expenditure on rural development, cuts in particular subsidies such as on fertiliser in real terms, and an overall decline in per capita government expenditure on rural areas.
- Very substantial declines in public infrastructure and energy investments that affect the rural areas. These were especially marked in irrigation and transport, both of which matter directly and indirectly for agricultural growth and productivity through their linkage effects.
- Reduced spread and rising prices of the public distribution system for food. This had a very important effect on rural household food consumption in some areas of the country. [7]
- Financial liberalisation measures, including reducing priority sector lending by banks, which effectively reduced the availability of rural credit, and thus made farm investment more expensive and more difficult, especially for smaller farmers.
- Liberalisation and removal of restrictions on internal trade in agricultural commodities, across states within India.
- Liberalisation of external trade, first through lifting restrictions on exports of agricultural goods, and then by shifting from quantitative restrictions to tariffs on imports of agricultural commodities. A range of primary imports were decanalised and thrown open to private agents. Import tariffs were very substantially lowered over the decade. Exports of important cultivated items, including wheat and rice, were freed from controls and subsequent measures were directed towards promoting the exports of raw and processed agricultural goods.

The proponents of such policies argued that they would necessarily lead to the acceleration of output growth in agriculture by increasing market-based incentives for agricultural investment and output. However, such acceleration did not occur, as discussed in more detail in the following chapter. In fact agricultural growth decelerated in the 1990s compared to the earlier decade, there have been declines in per capita foodgrain output and reduced rates of agricultural employment generation.

---

[7] This is clear from the detailed examination of the latest NSS data in Abhijit Sen, 2002.

Financial liberalisation

Many would argue that financial sector reform and the associated dependence upon internationally mobile finance capital has been qualitatively the most significant aspect of the reforms. This is because such moves then make the other features of reform “inevitable” in that no other measures would be seen as viable since they would be presumed to fail to retain “investor confidence”.

Financial reform or liberalisation, is an omnibus concept that is not easily delimited. In India such liberalisation touched on diverse aspects of the financial sector's functioning. In the banking sector, which dominates India’s financial system, the reform involved three major sets of initiatives. The first set included those measures aimed at increasing the credit creating capacity of banks through reductions in the Statutory Liquidity and Cash Reserve Ratio, while offering them greater leeway in using the resulting liquidity by drastically pruning priority sector lending targets. This was combined with greater flexibility in determining the structure of interest rates on both deposits and loans.

The second was to increase competition through structural changes in the banking sector. While the existing nationalised banks, including the State Bank of India, were permitted to sell equity to the private sector, private investors were permitted to enter the banking area. Further, foreign banks were given greater access to the domestic market, both as subsidiaries and branches, subject to the maintenance of a minimum assigned capital and being subject to the same rule as domestic banks. Finally, a degree of "broadbanding" of financial services was permitted, with development finance institutions being allowed to set up mutual funds and commercial banks, and banks themselves permitted to diversify their activity into a host of related areas.

Thirdly, banks were provided with greater freedom in determining their asset portfolios. They were permitted to cross the firewall that separated the banking sector from the stock market and invest in equities, provide advances against equity provided as collateral and offer guarantees to the broking community.

The reforms in the banking sector were accompanied by measures aimed at liberalising financial markets. The process started with the repeal of the Capital Issues (Control) Act, 1947 and the abolition of the office of the Controller of Capital Issues. Companies could freely seek finance through the capital market, subject to the guidelines and regulations specified by the newly created Securities and Exchange Board of India (SEBI). Selected Indian companies were allowed to access international capital markets through Euro-equity shares. A range of non-bank financial companies, including private mutual funds were allowed to operate. Investment norms for NRIs were liberalised and Foreign Institutional Investors (FIIs) were allowed to register and invest in India's stock markets, subject to an overall ceiling (30 per cent) and a ceiling for each individual FII in a particular company's shareholding. The ceilings were then continuously relaxed. In addition, the government did away with the higher rate of capital gains taxation that applied on foreign and NRI investment that chose to invest in the stock market and leave in a short period of time.

In the initial post-reform period, official monetary policy was associated with a sharp rise in interest rates. This, of course, helped sustain inflows of foreign and non-resident capital in search of high returns, especially during the period of industrial boom driven by the pent-up demand for consumer goods. But it also eventually adversely affected private investment and subsequently aggravated the recession generated by the curtailment of government expenditure, once pent-up demand was satiated. Subsequently, even though the government brought down nominal interest rates, the recession still persisted. In addition, of course, the rise in interest rates substantially increased the interest burden of the government. The decision to avoid cheaper borrowing directly from the RBI to finance the fiscal deficit meant that the government chose to resort to more expensive borrowing. This is an important reason why interest payments accounted for nearly one-third of total expenditure and half of revenue expenditure of the Central Government by the close of the decade.

Exchange rate policy

In terms of exchange rate determination, in a series of steps the government moved from an administered exchange rate to a situation by the end of the decade in which there was a unified, market determined exchange rate of the rupee, which was fully convertible for current account transactions. Other financial liberalisation measures had direct and indirect implications for exchange rate management by affecting the conditions for inflow and outflow of short-term capital into the country. The inflow of portfolio capital was permitted, through Foreign Institutional Investors; as we have seen certain companies were allowed to raise capital abroad and external commercial borrowing was also allowed to selected companies.

Until the crisis in Southeast Asia in 1997-98, the government appeared keen on moving to full convertibility of the rupee. The official Tarapore Committee set up to draw up a road map for the process had recommended that the implementation be spread over 1997-98 to 1999-2000 and suggested preconditions to be met sequentially for this. Besides fiscal consolidation, a mandated inflation target and the restructuring of bank capital, the roadmap prescribed a stepwise process of financial liberalisation. However, the East Asian crisis put plans for a rapid transition to capital account convertibility on hold for a time. From 2001 onwards, there have been further moves to lift restrictions on various types of foreign exchange of both current and capital accounts. Rules for investment abroad by Indian firms have also been liberalised recently.

Overall, one of the consequences of financial sector reform was India's growing dependence on volatile short-term flows of capital in the form of FII and NRI investments and NRI deposits. Combined with the decision to allow the value of the rupee to be determined by market forces, which made central bank purchases and sales of foreign exchange the only means by which the government could influence the value of the rupee, this resulted in considerable uncertainty regarding the value of the rupee. Further, domestic policies with regard to expenditure, interest rates and exchange rates were increasingly influenced by perceptions of how it would affect whimsical foreign investor sentiment. This has substantially reduced the manouverability of the government, and made it difficult for it to change policy track, even if it so chose, in order to deal with the problems that have emerged during the period of reform.

Post-reform economic growth performance

Advocates of economic reform have repeatedly argued that the decade of reform has witnessed India's transition to a new, higher growth trajectory. The typical claim – made by the government and other proponents of neoliberal policies - has been that, as compared with the old "Hindu rate of growth" of around 3.5 per cent per annum, over the 1990s the Indian economy was set firmly on a trajectory involving a rate of growth of well over 6 per cent. It has been argued that despite the fiscal compression resulting from the government's effort to contain the fiscal deficit in a period when the tax-GDP ratio was falling, liberalisation provided a stimulus to private "animal spirits" so that increasing private investment more than compensated for the sharp deceleration in public capital formation during the 1990s. Optimistic projections on the basis of this perception have even suggested that the economy could easily achieve a 9 per cent rate of growth in the near future.

But such optimism has not been borne out by the actual experience. By the end of the decade official statistics had begun to reflect the slowing of economic growth in India. The CSO revised its estimate of real GDP growth during 2000-01 to 5.2 per cent, compared with 6.0 per cent that was projected earlier.[8] By the turn of the decade, there was no area of economic activity in which GDP growth had not decelerated. Agriculture continued to stagnate, manufacturing growth fell from 6.8 to 5.6 per cent, and the services sector, which was responsible for raising aggregate growth even when the commodity-producing sectors were languishing, finally began to experience a degree of slackness.

So did the economic "reforms" of the 1990s actually spur economic growth? Advocates of reform have often argued that, whatever else may be said about the effects of the reform process, it cannot be denied that it has helped the Indian economy move to a higher annual average rate of growth. But it can be convincingly argued that the transition to a higher economic growth trajectory occurred well before the reforms of the 1990s. In fact the 1980s were also a period when the rate of growth of GDP was close to 6 per cent overall, with an acceleration in the second half of the decade, as shown in Table 1. This emerges from both of the two different series of national income estimates that use different base years. Thus the transition to a high rate of growth occurred during

[8] This deceleration is despite the fact that the new series of national income, with 1993-94 as base, has not only increased the GDP estimates but also points to a higher rate of growth than in the old series for both overall and agricultural incomes. Thus, the GDP estimate for 1993-94 is about 9 per cent higher according to the new series than the old, both overall and in agriculture. Also, between 1993-94 and 1997-98, agricultural GDP as per the new series rose by a total of 14.2 per cent as compared with 8.37 per cent according to the old series. Total GDP between these years increased by 31.3 per cent as per the new series as compared with 30.4 per cent in the old series, with GDP in the secondary sector rising by 41.6 per cent in both series and that in the tertiary sector by 37.4 in the new series against 38.6 per cent in the old.

the 1980s, when liberalisation was limited and halting, and not from the 1990s, when the pace of liberalisation was substantially accelerated and was far more widespread.

Table 1: Average annual rates of growth of GDP (at factor cost)
in constant prices

	Base year 1993-94	Base year 1980-81
1980-81 to 1984-85	5.5	5.3
1985-6 to 1989-90	5.8	7.0
1990-91 to 1995-96	5.6	4.2
1996-97 to 2000-01	6.2	

Source : CSO, National Accounts Statistics, various issues

The fact that aggregate growth rates were not higher in the 1990s is admitted even by official sources, such as the Reserve Bank of India. In its Annual Report for 2000-01, the RBI in fact made a stronger statement "Filtering the data on real GDP growth to eliminate irregular year-to-year fluctuations indicates the presence of a growth cycle in the Indian economy and a discernible downturn in the second half of the 1990s." (RBI Annual Report 2000-01, Mumbai, Summary, page 17.) According to the RBI, this brings the average growth rate of the "growth cycle" over the 1990s to only 4.4 per cent. This confirms that the process of liberalising reform has not delivered the higher rates of growth that were earlier promised and anticipated.

Table 2 describes the growth performance of the three principal sectors over the last three decades. While the primary and secondary sectors registered a rise in the rate of growth between the 1970s and 1980s, that rate of growth remained relatively constant in the 1990s when compared with the 1980s. Further, there was a deceleration in the rate of such growth during the second half of the 1990s when compared with the first half of the decade. Only the tertiary sector experienced a continuous rise in growth rates. But some services growth in the second half of the nineties was affected by the increased government expenditure on salaries that was entailed in the Pay Commission award. Thus, the 1990s liberalisation was not accompanied by any new dynamism in the commodity-producing sectors of the economy; rather, it could be suggested that the transition to a higher “trend” rate of economic growth in the 1980s lost steam over the 1990s, especially during its latter half.

Table 2: Sectoral GDP growth rates (base 1993-94)
Average annual rates of growth

	Primary	Secondary	Tertiary
1971-72 to 1979-80	2.22	4.64	4.87
1981-82 to 1989-90	3.37	6.95	7.04
1991-92 to 1999-2000	3.30	6.98	8.35
1985-86 to 1989-90	5.72	8.66	8.83
1991-92 to 1994-95	3.77	8.04	6.40
1995-96 to 1999-2000	1.95	4.99	7.20

Source : CSO, National Accounts Statistics, various issues

These rates of growth call into question the arguments advanced by the advocates of neoliberal reform, that there is a direct link between such reform and economic growth. Such a link tends to be based on the premises that both internal deregulation and external liberalisation spur private investment, that curbing public investment is beneficial for aggregate growth because otherwise it tends to "crowd out" private investment and that private agents acting on their own will deliver both more efficient and more dynamic outcomes.

This optimistic perception ignores the widespread evidence of market failures, at both microeconomic and macroeconomic levels, as well as the strong evidence of close positive links between public and private investment. There are obvious reasons why such an argument therefore would not hold over either short run or longer run time horizons, especially in a developing economy such as that of India. Given the unequal asset and income distribution and the consequent limited nature of the home market, private investment would come up against a demand constraint fairly rapidly. This would be aggravated when the type of private investment that occurs does not generate that much employment, as is likely when the investment is in sectors catering to richer consumers with production involving high import content or more capital-intensive technology. Public investment in countries like India tends to have strong positive linkages with private investment, not only because of the standard Keynesian mechanism, but because it also operates to ease infrastructure and other supply constraints, making private production easier and cheaper.(Serven and Solimano 1994, Arun Ghosh 1992a) Therefore, a strategy based on reducing public investment and hoping for deregulated private investment to fill the gap could well be expected to generate lower aggregate investment and growth trajectories than one which allows for an important role for public investment.

This argument is actually borne out by the Indian experience. By the turn of the decade, the government had already achieved major liberalisation and deregulation in many important areas of the economy. Thus, internal and external trade were almost completely liberalised by 2001. Domestic deregulation – especially for large capital – was extensive and provided much greater freedom to private investors in general. Attempts to control the fiscal deficit in order to prevent "crowding out" of private investment meant cuts in government productive expenditure and substantial reduction in the "primary deficits" (that is, net of interest payments). Many cases of privatisation of public assets were pushed through even at rock bottom prices. Despite all this, if growth still tended to slacken, the problem obviously lay to a substantial extent with the neoliberal reform process itself. And this was manifested in the fact that in aggregate terms the reform process did not generate either higher rates of investment in the aggregate or increases in the productivity of such investment.

IV. Labour market outcomes of the reform process in India

In an economy such as that of India, the generation of productive employment opportunities spread over a wide base of population is obviously the key to any sustainable economic expansion, besides being necessary for the reduction of poverty and more equitable distribution of income. Indeed, the inability to generate such employment, thus improving aggregate productivity of labour in the Indian economy rather than just in a few chosen sectors, has been the most obvious symptom of the failure of the Indian economic development process over the decades, along with the persistence of widespread absolute poverty and the slow rate of improvement in human development indicators. This is not just a problem of welfare, since it represents a huge waste of human resources that are crucial to building the economy, and suggests that Indian growth could have been both faster and more equitable if only the enormous labour reserves had been productively utilised.

In the 1990s, it became fashionable among neoliberal critics of the mixed economy planning-based strategy to argue that it was this very strategy that was responsible for the slow rate of employment growth. It was suggested that export pessimism and an inward looking import substitution policy had discouraged employment-intensive export production and imposed high-cost capital-intensive production which had low linkage effects with the rest of the economy and did not lead to more use of labour. It followed from this that opening up the economy to more liberal external trade and foreign investment would alter that pattern. Not only would there be a higher rate of output growth, but trade would lead to production being restructured towards more labour-intensive avenues, thereby generating substantial increases in employment. So, while the marketist reforms of the 1990s were not specifically directed at employment, the stated expectation of policy makers over this period was that liberalising markets, easing the conditions for entry and operation of foreign investors and encouraging exports especially in agriculture, would all contribute to more employment generation. And since the expansion and diversification of rural employment in particular was associated with declining levels of rural poverty over the 1980s, this was also expected to lead to a decline in poverty.

More than a decade after the initiation of this strategy, it is possible to assess how valid this argument has been for the Indian economy. The key results of the National Sample Survey's 55th Round (over 1999-2000) regarding employment and unemployment can be combined with the 2001 Census of India data to give some idea of how employment trends have moved. Such an exercise reveals a sharp, and even startling, decrease in the rate of employment generation across both rural and urban areas. Indeed, so dramatic is the slowdown in the rate of employment growth that it calls into serious question the pattern of growth over this decade.

Based on the employment rates (as per cent of the population) emerging from the 55th Round of the NSS, it is possible to calculate the rate of growth of aggregate employment in rural and urban areas since the previous large sample conducted in 1993-94. Table 3 shows growth rates of employment that have been calculated by combining the NSS proportions of employment with the total population figures from the Census of India.

Table 3: Growth rates of employment
(per cent change per annum)

	Rural	Urban
1983 to 1987-88	1.36	2.77
1987-88 to 1993-94	2.03	3.39
1993-94 to 1999-2000	0.58	2.27

Source: Based on NSS employment rates and Census population figures

Note: Employment here refers to all workers
(that is, Principal Status plus Subsidiary Status).

This shows a very significant deceleration for both rural and urban areas, with the annual rate of growth of rural employment falling to as low as two-thirds of one per cent over the period 1993-94 to 1999-2000. This was not only less than one-third the rate of the previous period 1987-88 to 1993-94, it was also less than half the rate of growth of the labour force in the same period. In fact, it turns out that this was the lowest rate of growth of rural employment in post-Independence history. Even in urban areas, the rate of growth of employment was significantly lower than the previous periods since the early 1980s.

The Census of India also shows this dramatic deceleration in employment in terms of main and marginal workers. Indeed, Table 4 shows that census estimates an even sharper decline in rates of employment generation in terms of main activity, while marginal or subsidiary activity may have increased only because it forms a sort of survival strategy for households effectively denied the opportunities for "decent work". .

Table 4: Annual growth rates of aggregate employment between 1991 and 2001 (per cent per annum)

	Male	Female
Main	0.31	0.49
Marginal	2.33	7.82
Total	1.73	3.18

Source: Census of India, 1991 and 2001.

The widening gap between incomes in agriculture and non-agriculture (such that the ratio of per worker domestic product in non-agriculture to that in agriculture which was about 2 in the 1950s was well over 4 in the 1990s) could be ascribed to insufficient productive employment generation in the countryside. But trends in urban areas also played a role in this. Thus, access to urban opportunities through migration and remittances could potentially be an important aspect of the diffusion of incomes to rural India. In fact, urban population grew more rapidly than rural population throughout the post-independence period, taking the urban population share up from 17 per cent in 1951 to 28 per cent in 2001. But the rate of increase in the urban share has been at only between 1 and 2 per cent per annum for this period as a whole. More important, this rate slowed down to only 0.77 per cent per annum over 1991-2001, suggesting that over this decade there was not enough employment dynamism in the urban areas to generate increased rates of migration.

The other important data to be gleaned from the NSS Surveys relates to the changing employment elasticities of sectoral output growth over the recent period. Table 5 presents these at the aggregative all-India level by major productive sectors. It is evident that there has been a substantial decline in employment elasticity of output growth in almost all the major productive sectors except for transport and finance related activities. In agriculture, the employment elasticity has dropped to near zero, while it has turned negative for mining, utilities and social and community services. In most other sectors, including manufacturing, I has declined. The latter two reflect the impact of Pay Commission recommendations, which increased public sector wages and restricted additional employment in the public sector over this period.

Table 5: Employment elasticities of output growth

Sector	1983 to 1993-94	1993-94 to 1999-2000
Agriculture	0.70	0.01
Mining & quarrying	0.59	-0.41
Manufacturing	0.38	0.33
Electricity, gas & water supply	0.63	-0.52
Construction	0.86	0.82
Trade, hotels & restaurants	0.68	0.62
Transport, storage, communication	0.55	0.63
Financing, insurance, real estate & business services	0.45	0.64
Community, social & personal services	0.68	-0.25
All	0.52	0.16

Source: Report of Special Group on Targeting Ten Million Employment Opportunities per year over Tenth Plan Period (S.P. Gupta Report) Planning Commission, Government of India, 2002.

Rural employment

A feature of rural employment generation over the 1980s that was much discussed was the diversification of employment away from agriculture and primary activities, towards secondary and service sector employment. In general this was seen to be a very positive feature, especially as it was accompanied by overall growth of rural employment in most regions of the country and was also associated with a trend decline in the incidence of rural poverty. There is now significant evidence that that the main dynamic source of rural employment generation over the period from the mid 1970s to the late 1980s was the external agency of the state rather than forces internal to the rural economy.[9] Indeed, the role of dynamic agriculture was significant only in states such as Punjab and Haryana where agricultural incomes had crossed a minimum threshold and where further increases in agricultural output were accompanied by labour displacement

[9] This argument is elaborated upon in Sen and Ghosh (1993) and subsequently in Ghosh (1999).

rather than greater labour absorption. Outside this limited region, the pull was provided mainly by external stimuli such as increased public expenditure.

However, over the 1990s, several of the public policies, which had contributed to more employment and less poverty in the rural areas in the earlier decade, were reversed. Macroeconomic strategy from 1991 was associated with continued stagnation in employment generation in the organized sector, and declining employment in the public sector. In addition, specifically with respect to rural employment generation, there were cuts in Central Government revenue expenditure on rural development (including agricultural programmes and rural employment and anti-poverty schemes), especially in per capita terms. There were very substantial declines in public infrastructure and energy investments that affected the rural areas. Importantly, reduced transfers to state governments meant that they faced a major financial crunch and were therefore forced to cut back their own spending, particularly on social expenditure such as on education and on health and sanitation, which had provided an important source of public employment over the 1980s. Financial liberalisation measures effectively reduced the availability of rural credit and therefore possibilities for rural enterprise development.

Therefore it would have been expected that the 55th Round NSS data (referring to 1999-2000) would show a reversal of the earlier employment diversification away from agriculture in rural areas. However, in fact the NSS Survey results suggested instead that, after a period in which such diversification appeared to have reversed between 1987-88 and 1993-94, the move away from primary sector work in rural India became even more marked in the late 1990s. According to the NSS, primary sector employment declined for both men and women in the rural areas between 1993 and 1999-2000, and the decline was especially sharp in the case of men, for whom tertiary sector employment increased its share significantly.

Table 6: Rural employment by sectors

	1977-78 to 1983	1983 to 1987-88	1987-88 to 1993-94	1993-94 to 1999-00	1977-78 to 1987-88	1987-88 to 1999-00	1977-78 to 1990-91	1990-91 to 1999-00
USUAL STATUS – PRINCIPAL								
Agriculture	1.11	0.43	2.08	0.80	0.81	1.44	1.06	1.27
Mining	5.50	5.32	2.11	-1.63	5.42	0.22	4.62	-0.36
Manufacture	3.16	3.46	1.03	1.85	3.30	1.44	3.43	0.65
Electricity	1.57	10.94	2.47	-5.51	5.69	-1.60	9.39	-8.58
Construction	7.20	16.92	-2.75	6.08	11.47	1.57	5.99	5.90
Trade	2.90	4.90	2.81	4.41	3.80	3.60	2.89	4.86
Transport	6.51	6.15	3.22	7.52	6.34	5.35	6.04	5.45
Services	3.32	2.36	3.86	-0.58	2.89	1.62	6.54	-3.78
All Non-agri	3.73	5.27	1.76	2.60	4.42	2.18	4.75	0.99
All Sectors	1.60	1.45	2.01	1.23	1.53	1.62	1.84	1.20

USUAL STATUS - PRINCIPAL AND SUBSIDIARY								
Agriculture	1.45	0.33	2.17	0.18	0.94	1.17	0.75	1.53
Mining	6.14	5.57	2.14	-2.30	5.88	-0.11	4.46	-0.09
Manufacture	3.53	2.61	1.59	1.59	3.12	1.59	3.12	1.08
Electricity	1.70	11.10	2.19	-5.67	5.83	-1.82	9.32	-8.63
Construction	6.36	18.43	-3.51	6.41	11.63	1.33	5.82	5.98
Trade	3.03	4.51	3.21	3.73	3.69	3.47	2.95	4.47
Transport	8.10	5.12	3.78	7.28	6.75	5.51	6.17	5.93
Services	3.57	1.95	4.25	-0.70	2.84	1.74	6.41	-3.50
All Non-agri	3.97	4.86	2.02	2.34	4.37	2.18	4.56	1.19
All Sectors	1.89	1.23	2.14	0.66	1.59	1.40	1.51	1.45

Source: NSS various rounds.

On the face of it, this should be a welcome tendency, suggesting that dependence on agriculture was decreasing and that the rural economy was experiencing much-needed diversification of employment opportunities. [10] However, this needs to be viewed in conjunction with the evidence on falling work participation rates and decelerating aggregate employment generation. Thus, aggregate work participation showed very major declines, such that the per cent of rural population showing some usual status employment declined over the 1990s and by 1999-2000 was at the lowest level in thirty years, at 53 per cent for men and 30 per cent for women. While there was some increase in student-population ratios in the younger age groups, this was not enough to explain the substantial drop in work participation. In any case, the increase in number of those in education occurred most sharply in the period between 1983 and 1992, and actually stagnated thereafter.

The NSS collects employment data by three reference periods: (i) one year (usual status), (ii) one week and (iii) every day of the reference week. Those who are not workers by usual status principal status (PS), i.e. those reporting themselves as not usually working throughout the year, are included in the usual status as subsidiary workers (SS) if they were gainfully occupied for some part of the year. Thus Usual (PS+SS) is always higher than Usual (PS), the difference mainly involving female workers. The number of workers by weekly status is the subset of Usual (PS+SS) who worked during the reference week, but for a particular industry the number of weekly status workers could be larger than Usual (PS+SS) if the industry of work during the week is different from the usual industry. The daily status is a flow measure of the

[10] In fact it has been argued, by Sundaram (2001) and others, that the much higher decline in the share of agriculture than in the past should be viewed positively, and that the decline in employment growth in the 55th Round may be exaggerated because in part this reflected an increase in those engaged in education in the younger age groups.

number of full days put in by weekly status workers, so that the ratio of the two is a measure of the frequency of employment.

NSS data therefore allow us to work out growth rates of All India rural employment by these different concepts. Interestingly, the growth rate by daily status is generally lower than by the usual and weekly status after 1987-88, having been higher earlier. This fits in with the fact that daily status unemployment increased between 1987-88 and 1993-94 and increased further in 1999-00, after declining during 1977-78 to 1987-88. Also, post-1987-88, the weekly status growth rate is higher than usual status for agriculture but lower for non-agriculture, having been the opposite earlier. This suggests fewer usual status agricultural workers finding non-agricultural work (or more usual status non-agricultural workers having to resort to agriculture) so that the situation as regards rural non-agricultural employment is probably even worse than indicated by the sharp reduction in growth rates by usual status.

More important is the fact that both agriculture and non-agriculture showed significant slowdowns in the rate of job generation. Using the NSS "thin" sample results and marking the year 1990-91 as the break in terms of the introduction of neo-liberal economic reforms, the remarkable result that emerges is that agricultural employment growth increased while growth of non-agricultural employment decelerated very sharply, even though GDP growth has followed the opposite pattern. With this background, the decline in primary sector share of employment over the period 1993 to 1999-2000 was less a sign of rural dynamism than a reflection of the collapse of productive employment opportunities in the rural areas generally. Given the changes in macroeconomic strategy that have adversely affected the rural economy, this was not surprising.

Urban employment

In the urban areas, as evident from Table 3, the rate of employment generation slowed down very dramatically over the 1990s in particular. Male work participation rates fluctuated within a fairly narrow band of between 50 and 53 per cent with no clear trend, thus suggesting at the least that there were no dramatic increases in perceived employment opportunities. For women, while there was fluctuation in work participation rates, the overall trend was one of decline. Indeed, the decline, on a point-to-point basis, was very significant for just a decade, by more than 4 percentage points from 15.6 per cent to 11.4 per cent. This is extremely interesting, for it suggests that the picture that was being painted in the early 1990s, of a process of "feminisation" of employment, especially export-oriented manufacturing employment, clearly was not substantial enough to counteract other forces which have made for downward pressure on female work participation rates.

The implications for the nature of economic participation by women in urban India over the 1990s deserve some greater elaboration. Feminisation of employment became one of the economic buzzwords of the 1990s, as the role played by female labour in the East Asian export boom became more widely recognised, and as many export-oriented producers even in India chose to employ more women. This preference for women was typically a reflection of their inferior status, because of lower reservation wages, acceptance of worse working conditions and willingness to work under much more fragile casual contracts whereby they could be hired and fired at will. But in turn the very process of such employment generation often played a role in changing gender equations and relative power in society, so that market-based economic participation by women began to be seen as an important means to their economic empowerment.

This was very much the received wisdom not only in India, but throughout Southeast Asia where the process was far more advanced, until the mid-to late 1990s. However, data relating to the latter part of the 1990s that have recently become available, suggest that the process of feminisation of work began to decelerate or even to reverse, even before the crisis of 1997. Thus, female shares of manufacturing employment began to decline in most of these countries by 1994 or even earlier, as the increased employment of women led to upward pressure on their wages, reducing the gender gap in wages, and also involved louder social demands for better working conditions for women workers. These pressures actually made them less attractive for employers, and the impetus to feminisation became less marked. [11]

In India, formal feminisation of work was still relatively less developed, although there is evidence that it was on the increase in the peak period of the 1990s. Instead, one of the more important forms of increase in women's work was in home-based work as part of subcontracting networks that extended all the way from large (often multinational) companies down through various subcontracted units to women working on a piece-rate basis at very low wages. This was possible because women were still seen as subsidiary earners in households and the widespread extent of underemployment made any remuneration, however little and unfair, seem attractive as part of the material survival strategy of poor urban households. [12]

The deceleration and even decline in organised sector employment, was one of the more disturbing features of the 1990s, especially given that industrial output increased manifold and the service sector in which much of the organised employment was based, was the most dynamic element in national income growth. Despite this, organised sector employment expansion slow down considerably compared to the earlier decade, and barely increased at all for male workers. This was due to the collapse in public sector employment, a process that was in turn greatly welcomed by economic liberalisers who saw in this downsizing tendency a reflection of greater “efficiency”. While public sector employment fell especially in the latter part of the decade, private organised sector employment continued to increase, albeit very slowly. But this increase was not really enough to compensate for the decline in public employment. Indeed, by the end of the decade the organised sector accounted for only 8.3 per cent of total employment. For the private sector as a whole, it accounted for only 2.5 per cent of total employment. This of course creates a significant problem for labour policy, because the

[11] This argument is developed in Ghosh (1999, 2001).

[12] The implications of such a process for economic conditions facing women workers is considered in Ghosh (2001a, b).

traditional forms of regulation affecting workers' conditions typically can be effectively applied only to workers in the organised sector. The dominance of the unorganised workforce means that a labour policy regime needs to be worked out bearing in mind this crucial consideration.

Table 7: Organised sector employment
in public and private sectors, figures in lakhs

	1990	**2000**
Public sector total	187.72	193.14
Males	165.22	164.57
Females	22.50	28.57
Private sector total	75.82	86.46
Males	61.88	65.80
Females	13.94	20.66
Total organised sector	263.53	279.60
Males	227.09	230.37
Females	36.44	49.23

Source: Ministry of Labour, quoted in Government of India
Economic Survey 2001-02.

Table 8 provides data to show that the growth rate of organised employment in manufacturing was pitifully low over this period, at well below 1 per cent per annum between 1993 and 2000. The low and falling proportion of the organised sector in total private employment also questions the assumption that excessive regulation has restricted employers in Indian manufacturing activity in the aggregate, although it does suggest that employers are less likely to increase workforces in the organised sector.

Table 8: Growth rates of employment
in organised and unorganised manufacturing

Sector	Employment 1993-94 (millions)	Employment 1999-2000 (millions)	Rate of growth (per cent per annum)
Organised manufacturing	6.40 (18.3)	6.74 (16.5)	0.87
Unorganised manufacturing	28.60 (81.7)	34.05 (83.48)	2.95
Total manufacturing	35.00	40.79	2.58

Source: NSS Surveys, 50th and 55th Rounds.

Over this period, there was a marked increase in casual employment for male workers. This was not a new tendency - it has been noted in India, in both rural and urban areas, for several decades now - but the 1990s average was especially high in this regard. Such a tendency would probably be welcomed by those who see in this an indication of greater "flexibility" in the labour market, but in the context of the other trends already identified, what it tells us is that male workers were increasingly working in more fragile and vulnerable conditions, and despite this urban employment generation remained inadequate at best and even less dynamic than in earlier periods.

For women workers, by contrast, there was a slight increase in aggregate organised sector employment, in both public and private employment, although this still reflected a substantial deceleration in aggregate organised sector employment over the 1990s compared to the earlier decade. Secondary sector employment shares for women workers remained approximately stable, with if anything a slight decrease over the 1990s. While self-employment among women workers tended to decrease, there were increases in the share of both casual employment and regular employment.

In countries like India, as is well known, open unemployment rates are very poor indicators of the actual levels of job availability, because the material circumstances and absence of public social security systems mean that most workers have little choice but to find some employment, however unremunerative. Underemployment, or disguised unemployment, is far more difficult to estimate and measure, but is in fact the most common tendency. It is true that there is more likely to be recognition of open unemployment in urban areas where surplus labour is less easily disguised as work in the fields. However, even here, the proliferation of informal activities, mostly in the service sector, can serve as a way of camouflaging the actual extent of underemployment. This is of course another reason why data on service sector employment in countries like India need to be viewed with some degree of caution.

Even given these caveats, the evidence from the NSS shows that rates of unemployment for both men and women were rather high over the 1990s at around 7 per cent for men and 10 per cent for women using the “weekly status” definition. It should be noted that these unemployment rates in the latter part of the period were still not enough to explain the overall decline in work force participation. It could be inferred from this that by the end of the decade, the “discouraged worker effect” now so widely observed in developed countries with high rates of open unemployment, had some significance even in an economy like that of India, with little or no security in the form of unemployment benefits or insurance.

What all this suggests is that the pattern of growth over the 1990s did not generate sufficient employment even in the urban areas. This belies the expectations of those who had pushed for the economic strategy of the 1990s, that deregulation and trade liberalisation would be adequate incentives to more employment-intensive economic activity. There are several reasons for this outcome, which was *because of* rather than in spite of, the economic policies that were pursued. These policies systematically worked against the interests of most small producers, who accounted for not only the most labour-intensive forms of urban production but also the dominant part of urban manufacturing employment. The reduction of priority sector credit allocation, the shift in emphasis in terms of financing investment from banks to the stock market (where most small players simply cannot enter) and the removal of various export subsidies from which small-scale exporters benefited, all militated against the interests and viability of such enterprises. Meanwhile, as we have seen earlier, public investment in vital urban infrastructure declined considerably, and public sector "cost-cutting" and other practices reduced the efficiency and accessibility of the infrastructure because of inadequate maintenance. These not only created important bottlenecks for all producers, they also added to costs in general, which affected the economic viability of small enterprises.

On top of all this, there was the pressure coming from newly freed imports becoming available at lower average rates of tariff. Such import competition was particularly difficult for small scale producers to meet, not only because of the greater control of many large companies over distributive networks, but also because small companies were typically unable to match the huge advertising budgets of larger companies and multinationals in particular. The role played by such import competition in reducing the viability of small enterprises and therefore in exerting downward pressure on urban employment in particular, should not be underestimated. Meanwhile, as manufacturing exporters strove to become or remain competitive in an increasingly difficult international environment, they were forced not only to find various ways of making labour more "flexible" than ever (through lower wages and more insecure working conditions), but also to adopt relatively capital-intensive new technologies that could ensure the quality and consistency that were required in world markets. This meant that employment elasticities of production in such sectors tended to decline consistently, as noted above, and so they also could not be looked to as large sources of potential employment generation.

Is there a trade-off between wages and employment?

It is common to argue nowadays that there is an inverse relationship between employment and real wages. That is, that high wages mean lower employment in the aggregate, and that the existence of unemployment really means that wages are too high. This notion has a very old history in economics. It formed a major part of the dominant economic discourse from the marginalist revolution of the 1870s onwards. In fact, until the idea was blown apart by Keynes in the 1930s, it was the basis of most macroeconomic thinking. Recently there has been quite a revival of this notion, which is based on the notion that trade unions and protective labour laws effectively make wage costs too high for employers. It is believed that if wages are allowed to fall, employment will increase to the point where everyone who wants a job can get one. This in turn sets a guideline for policy: allow labour markets to function “freely” without impediments and regulation, and full employment will inevitably be attained.

The Keynesian revolution of the 1930s had already questioned this analysis, pointing out that at economy can settle at a point that is not characterised by full employment. The insight of Keynes and Kalecki was to show that unemployment can result when the economy is operating at a low level because of low aggregate demand in the system. The total use of labour is then determined by the level of output, which is in turn determined by overall demand for goods and services.

Since this labour use is independent of the wage rate, reducing wages will not help. In fact, because of the difference between how an individual employers thinks and how the system as a whole works, reducing wages might even have the perverse effect of further reducing the people's purchasing power and therefore their effective demand. This would result in even lower levels of aggregate output and therefore employment.

Despite this argument, across the world there has been a revival of the notion that there is a strong inverse relation between wages and levels of employment. In the developed world the notion of NAIRU in fact came to be associated with some notions of base levels of unemployment that were "structurally" determined by institutional considerations like strong trade union pressure and restrictive labour legislation. Even in countries like India, it is now being argued that, independent of the level of output, employment would increase if only wages could be lowered. But because of trade unions and labour laws that make the process of hiring inflexible and put lots of constraints on employers, less people are able to find work, especially in the organised manufacturing sector.

This argument has served two purposes. First, it has attempted to provide an explanation of the abysmal performance of employment generation in the Indian economy over the 1990s, when employment was supposed to grow through the unleashing of private animal spirits because of liberalisation and deregulation. Second, it has been used to suggest that substantial reform of labour laws, in terms of easing restrictions on hiring and firing and doing away with minimum wage regulations, are required to increase levels of employment.

For all these reasons, this argument needs to be considered seriously. Let us consider the context of the Indian manufacturing sector. While the slow (and falling) rate of employment generation is evident in all sectors, it is also marked in manufacturing. Even the data of the Annual Survey of Industries, which presents the most optimistic picture, shows annual employment growth in manufacturing industry to be well below 1 per cent per annum over the period since 1990.

It turns out that for aggregate manufacturing, there is no evidence at all for an inverse relationship between real wages and employment. Rather, two factors seem to have been the strongest factors in affecting levels of employment in manufacturing: the rate of growth of output, and the technological changes which lead to changes in the pattern of labour use. Most technological changes in India industry have operated to improve labour productivity and therefore have led to lower requirements of labour per unit of output. Over the past two decades there has been a more or less continuous and stable increase in labour productivity. But these do not only reflect technological progress emerging from within the Indian economy. Rather, as noted earlier, the technological choices in Indian industry generally reflect the effects of adopting and copying (with a lag) the models of such change that emanate from developed countries. That is why such advances have generally implied improvements in labour productivity and lower use of workers per unit of output. The converse of such increases in labour productivity, of course, is that employment tends to increase less than output increases. And this has been the basic pattern in Indian industry, which has operated quite independently of wage levels.

A look at specific sectors reveals a similar result, even though there are some differences across sectors. The regression exercise reported in Table 9 examines the relationship between employment, real output levels and real wages for important sub-sectors of industry, and finds that there is typically no negative relationship between real wages and employment. In most of the manufacturing sectors, in fact, real wages are positively associated with employment, sometimes quite significantly so! This may be because when industries are growing, they go in for more technological innovation, which increases labour productivity and therefore allows for higher wages as well.

So, there is little systematic evidence of an inverse relationship between wage levels and employment in manufacturing industry across the range of manufacturing sub sectors as well as for the sector as a whole. This should come as no surprise, in labour surplus economies like that of India, which are also currently suffering from under-utilised capacity due to inadequate effective demand.

Table 9: Regression exercises for the relationship between employment, product wages and output growth (Dependent variable is employment)

Industry	Coefficent for product wage	Coefficient for gross real value of output	R2
Food and food products	0.31 (10.6)	0.24 (12.02)	0.91
Cotton textiles	0.25 (0.7)	-0.11 (2.6)	0.32
Textile products	0.27 (2.51)	0.33 (2.27)	0.99
Leather and leather products	0.41 (1.93)	0.18 (1.54)	0.95
Chemicals	-0.05 (0.57)	0.23 (4.76)	0.97
Rubber, plastic, petroleum and coal	0.47 (4.29)	-0.09 (0.64)	0.96
Non-metallic mineral products	0.39 (3.2)	-0.09 (2.02)	0.74
Metal products	0.14 (1.04)	0.1 (1.6)	0.87
Machinery and equipment	0.1 (1.14)	0.04 (0.92)	0.82
Transport equipment	0.25	-0.05	0.53

	(2.11)	(-0.88)	

Note: Figures in brackets are t values

Source: Calculated from data from Annual Survey of Industries

Ironically, however, insofar as there does exist a trade-off between wages and employment, it could be said to exist not for private employers, but for the public sector! Across the country, in almost all State Governments and most Public Sector Enterprises, as well as in the Central Government, there is an effective ban on new hiring (sometimes even for replacing retiring workers) which has been effective in many cases since 1991. This has emerged from the hard budget constraint that has been forced upon State Governments and Public Sector Enterprises as part of the attempts at fiscal reform. This has meant that while increases in public sector wages (which are legally mandated by successive Pay Commissions) are outside the control of the enterprises or the State Governments, the only way to limit the wage bill at all is to contain or even reduce the public workforce. This has contributed to the decline in organised employment noted earlier, but in addition it has meant that in a country which is already desperately short of adequate public services in health, education and even basic administration, downsizing and further reduction of such services has become the order of the day.[13]

Women's work and the significance of outsourcing in manufacturing

The particular pattern of women's employment is manufacturing in India has already been briefly discussed. Here the issue is considered in some more detail with reference to the emerging pattern of outsourcing and subcontracting in manufacturing and some services. Overall women's employment in manufacturing decreased over the 1990s. While there have been sectoral variations in this regard, the decline of women in the share of employment has been most marked for Own Account Manufacturing Enterprises (which fits in with the pattern noted above) and Directory Manufacturing Establishments.

Home-based subcontracting activities, or work in very small units that do not even constitute manufactories, often on piece rate basis and usually very poorly paid and without any known non-wage benefits, may to some extent have substituted for both self-employment and more regular employment on a regular wage or salary basis. This is supported by some micro-evidence relating to certain manufacturing sectors in particular towns and cities.[14] Both the general pressure of industrial capitalist production and the particular external pressures faced by exporting industries which have to respond to international competition, operate to increase this tendency rather than to increase a more regular and secure form of women's involvement in manufacturing work.

[13] In this context, it is worth noting that while the international norm for the ratio of public servants to population is 3 per cent (and it is as high as 6 per cent in western Europe) in India this ratio is less than 1 per cent at present.

[14] See, for example, Mukhopadhyay, 1999; Neetha, 2001; Shah and Gandhi, 1994; Deshpande, 2001

This perception is supported by the evidence on increase in subcontracting in Indian industry, especially in terms of export-oriented manufacturing companies and multinational companies operating in India.[15] One particular estimate by Ramaswamy 1999, of subcontracting intensity for Indian manufacturing (defined as the ratio of the value of goods sold in the same condition as purchased, to value added) found that it had increased from 9.46 per cent in 1970 to 25.3 per cent in 1993-94, for all manufacturing sectors taken together. Certain industries, especially consumer non-durable goods, were found to have very high subcontracting intensities in excess of 100 per cent by the early 1990s. These included weaving and finishing of cotton textiles on power looms (110 per cent), stationery articles (180 per cent) canning and preparation of fruits and vegetables (178 per cent) and even white goods such as refrigerators and air conditioners (115 per cent). Ratios in excess of 100 per cent indicate that the value of subcontracted production that forms part of the input, is even higher than the value addition involved in the final output.

This particular study by Ramaswamy identified both technology and labour regulation as factors behind the higher subcontracting activity of factories that used more labour per unit of output. Thus, technological changes that are oriented towards higher labour productivity obviously reduce the requirement of many kinds of unskilled labour in particular, but they also allow a break-up or physical disintegration of the production process which greatly facilities outsourcing. Similarly, labour regulation that puts requirements on worker pay, conditions or safety on employers who gather workers together in factory or workshop settings tends to encourage more use of putting out systems, since these are effectively free from all such labour regulation and the chances of self-exploitation by home-based workers are greater. So, those activities or parts of production processes that involve more labour use per unit of output are more likely to results in organisational forms dependent upon subcontracting at various levels.

This conclusion is also supported by other work on women workers in "informal" economic activities. There is, for example, the well-known case of workers in the *beedi* (local leaf-based cigarette) industry, where approximately 90 per cent of the total workforce consisted of women and children working at home. [Labour Bureau, 1995] The *beedi* industry is not an export industry, but this suggests that home-based work is already a common manufacturing practice. These are not export-oriented units, but they indicate that such labour practices are widespread and therefore are available for use by export-oriented producers who naturally require even more "flexibility" in their functioning. Similarly, studies of the export-oriented industries of cashew and coir processing in Kerala found that male workers with higher reservation wages often stayed unemployed while women from the same household worked both at home and in small outside units at very low rates of remuneration. [Quoted in Mukhopadhyay, 1999.]

If the macro data combined with the micro evidence that is available are accurate representations of current trends, then the feminisation of export-oriented employment may have taken a particularly regressive form in India, whereby the marginal utilisation

[15] Suri, ed., 1988; Bose, 1996; Ramaswamy, 1999.

of women workers is at the lowest and poorest paid parts of the production chain, and such women are therefore effectively deprived of all the benefits that may accrue from outside employment except for the meagre nominal returns that they receive from piece-rate work.

This in turn constitutes an important challenge for labour policy. Thus, if workers are collected at a work place, then it is likely that there can be greater social control over both general employment conditions and specific factors affecting them. But if the nature of outsourcing is such that it is mediated through a chain of intermediaries, then the final user of the outsourced material - typically a large and even multinational company - can claim that it has no knowledge of the working conditions or remuneration at the bottom of the chain, and need not be responsible for them. Further, even legislation designed to improve conditions of such work, along the lines of the Home Workers Convention of the ILO, is difficult to implement because of the near impossibility of monitoring and ensuring compliance.

An important question, of course, is why this is should be so much more the case for Indian women workers. In other words, why is the feminisation of work taking this particular form and why is Indian manufacturing so increasingly prone to this type of organisational structure? From the point of view of employers or suppliers of goods, at one level the advantages of home-based production are quite obvious. When industry outsources part or even all of its production processes, it effectively transfers to the workers' households the responsibility for important costs of production: the site, machinery, inputs such as electricity, spare parts, maintenance, health and safety at work, pensions, healthcare, etc. A piece rate system of payment not only does away with supervision costs because of the worker's tendency for self-exploitation under such circumstances, but it also allows for very low rates of remuneration, often below minimum wage levels. Home-based workers' opportunities for any kind of organisation or collective bargaining are limited and therefore they are rarely in a position to demand better contracts from middlemen.

However, these are quite universal features of home-based work, and indeed they have been used to explain its prevalence in countries from Chile to Vietnam. What is probably significant in India is the fact that open employment of women in export-oriented factories, while it is certainly growing and has been quite significant in a number of industries, is less apparent than it was in the Southeast Asian countries during their phase of major export boom. Instead, perhaps a greater role has been played in Indian manufacturing by drawing in women working in very small or tiny units, effectively in the informal sector, or even actually within their own homes. To some extent, this can be explained by the relatively low position of many of India's export commodities in the international value chain, such that there is greater emphasis on very low wages rather than skill and quality considerations. It is noteworthy that even in domestic market oriented manufacturing, this tendency for outsourcing to home-based work is more pronounced in relatively low value and low skill content goods, in a range of sector ranging from textiles, garments and leather goods to plastic processing. To that extent this tendency could even be seen as part of a phase of industrial development and export involvement, in which the focus in on maximising profit through squeezing costs rather than increasing productivity, and supplying low-end goods or low-value parts of the production process.

This hypothesis tends to be quite starkly confirmed by a recent study of the involvement of female labour in the export-oriented knitwear industry of Tirupur, Tamil Nadu [Neetha 2001]. For this reason, it is worth considering the results of that study at some length. Tirupur, a small town in Tamil Nadu, is an old centre of textile production which from the mid-1980s turned into a growing centre for knitwear production for export. It is now actually the largest of the cotton knitwear export centres in India, accounting 20 for per cent of exports directly and nearly half of all such exports if the re-exported sales to Delhi, Mumbai and Chennai are included. Knitwear exports from such centres go dominantly to the developed markets of Western Europe and the United States, and are often sold under famous brand names. The industry is dominated by small and very small producers, which are really subcontracting units for direct exporters and merchant exporters, who in turn negotiate with international suppliers. There are also ancillary units and job workers (including home-based workers) all of whom are integral to the aggregate production.

Neetha's study shows that in the early phase of modern industry in Tirupur (1925-70) when organised production was the norm, the mills were mostly composite units carrying out all operations, and employing *only* males workers. In the next phase, between 1970-85, there were the beginnings of the fragmentation and disintegration of production. Production facilities moved to Tirupur as employers fled Calcutta after a series of strikes, and sought to ensure more pliant workforces also using migrant labour. In this period women workers were involved in the production process as "helpers", in cutting, arranging and folding for the male workers, usually from their own household. (It is worth noting that this was also the period of the decline in the local handloom industry, which left many women workers unemployed or underemployed.) Some of this work would even be done at home as male workers would take the material back with them for the (often unpaid) assistants to work on. The third period from 1985 onwards has been marked by a massive expansion of exports from Tirupur, and this was associated with the rapid acelration of the processes of subcontracting and informalisation. Female workers have been increasingly absorbed into the industry, to the point where they now constitute around 60 per cent of the total work force.

It is interesting to find that by the present time, the division of labour in the Tirupur knitwear industry has become minute and highly specialised, with gender driving most of the changes. The women – typically young women between the ages of 15 and 30 years, and dominantly only 15-20 years - are almost all employed on casual piece-rate contracts which end up providing them with daily incomes which are just above half the official minimum wages in the area. The employment of women is much greater in the lower rungs of of the production chain, where uncertainty in production is higher and there is sharp seasonality or volatility in demand. While the horizontal mobility of women workers across units is quite high because of the uncertain employment contracts, upward mobility is close to zero and there is very little chance of moving up the skill ladder to activities like tailoring which remain the preserve of men. Also, the extent of subcontracting varies, but is so extensive that it goes down to the home-based work level, or to production units that are so small that they cannot be called more than very tiny cottage enterprises. What is surprising is that Tirupur is often described as being on the "high road" of flexible specialisation, because of the fact that many former workers have become producers and suppliers, albeit on a small scale. In fact, as can be seen from this very brief description, it is very a much a "low road" pattern because of its complete dependence on inferior labour contracts using mostly female workers.

This study of Tirupur clearly indicates that feminisation of employment has been the direct outcome of the attempt to create a pattern of "flexible specialisation" to meet shifting international demand requirements and provide the cheapest possible production for international suppliers. Indeed, a similar tendency has also been observed for the small export-production units in certain sectors like garments and plastic processing in Greater Delhi and Ghaziabad [Shah and Gandhi 1999]. It is therefore an accumulation and production strategy which is integral to *a certain phase* of capitalist production for export. It is interesting – if almost predictable – to find that in some more modern units using very recent technology and catering to specific international suppliers on a more stable basis, there has been a shift to time rate wages and also to employing men at the margin. This also suggests that, just as feminisation is a response on the part of employers to the need for a more "flexible" labour force, it may also be a certain stage in a longer evolution, and as production moves up the value chain we may eventually observe the defeminisation, or re-masculinisation of the export work force, at least to some extent.

Employment in the IT and related sectors

It is also necessary to consider an export sector of more recent vintage, albeit not only in manufacturing industry per se – that of software and IT-enabled services - which in the 1990s emerged as the fastest growing segment of India exports. Much has been made of the growth potential of this sector and its ability to increase educated employment, as well as of the important potential it offers especially for urban educated women to enter employment on relatively advantageous terms. There is no doubt that these new sectors in India offer a very promising combination of employment opportunities and export revenues from hardware, software and IT-enabled services. Projection by both private industry and government of the likely trends in output, exports and employment, are extremely optimistic. Also recent trends confirm that there has been a decline in open unemployment among the urban educated groups, which has been attributed by many to the employment expansion in IT-enabled services in particular.

According to one study [NASSCOM 1999], India has the potential of raising export revenues from software and IT-enabled services from its 1999-00 level of $4 billion to $50 billion in 2008. This would take the size of the industry from $3.3 billion in 1998 to $87 billion in 2008, along a trajectory involving a compound annual rate of growth of 40 per cent. As a result, the IT sector's contribution to GDP growth is expected to touch 7.5 per cent and its share in India's exports to reach 30 per cent as compared with around 5 per cent currently. Such growth is expected to have substantial employment implications, with employment in the software industry alone projected to rise from its 1997-98 level of 180,000 to 2.2 million in 2008. This makes the projected increase in employment in the software sector greater than the increase in total organised public and private sector employment of 181,300 between 1990 and 1998. If these projections are realised, employment in the software sector in 2008 would be around 8 per cent of India's organised sector employment in 1998. To this should be added the projection that direct and indirect employment in the hardware sector is expected to touch 1.6 million and 3.2 million respectively, taking total IT employment to 7 million in 2008. And of course this still does not include the employment potential of a wide range of IT-enabled services, including data entry and processing, medical transcription and back-office work subcontracted by multinational companies, where it is often argued that the scope for job expansion is even greater.

As always, however, there is need for caution in interpreting such optimistic figures. The first problem relates to the digital divide, in terms of both availability of and access to even the hardware necessary, as well as the levels of education required to make use of the technology even at a relatively basic level. Even as late as 1998-99, the penetration of PCs in India was only 3 per thousand and the number of fixed telephone lines to connect to the world wide web through an ISP only 22 per thousand. . Even after taking account of the optimistic projections of IT growth to 2008, PC penetration is expected to touch only 20 per thousand and fixed telephone penetration just 100 per thousand. In the circumstances the impact of IT on the nation as a whole can only be marginal, and generally confined to urban India. [Chandrasekhar 2000]

The ability to make use of the technology is critically determined by levels of education. Even as late as 1997, NSS data revealed literacy among the population above 7 years of age was just 62 per cent. The literacy requirement is set so low that in most cases being literate would be inadequate to be competent enough to become digitally literate, since a minimum of school education would be a prerequisite beyond a point. Here the picture is quite depressing, according to a recent report on the state of public education. According to this report, around the beginning of the 1990s, half of the country's population (61 per cent of women and 36 per cent of men, aged 7 and above) was unable to read and write; less than 30 per cent of all adults had completed eight years of schooling; and one-third of all children aged 6-14 years (about 23 million boys and 36 million girls) were out of school. [The Probe Team 1999]

Similarly, since much of the activity is in English, the employment generated by both the software and IT-enabled services sectors is currently concentrated among the richer and English-educated sections of urban (and even metropolitan) India, and is likely to remain so.

It is also true that the impact of IT on growth and employment is uncertain. As mentioned above, the remarkable rates of growth recently recorded are from very small bases, and the sector typically remains very small relative to the rest of the economy, in India as elsewhere. These rapid rates of growth should be treated with caution, also because gross revenues are misleading in an industry segment characterised by substantial dependence on imported capital goods, components and software, since this substantially reduces the domestic multiplier effects of such spending.

Chandrasekhar [2000] points out that there are at least three prerequisites for the growth potential in this sector to be fully realised. First, software exports need to diversify in term of sources and destinations. Currently the US market dominates, which is why the recent slowdown in the US has generated apprehensions about the sustainability of the Indian IT boom. Second, software service providers should be able to sustain the quality of services offered by inducting appropriately qualified and skilled personnel to not merely write code but design systems. Third, Indian firms should be able to migrate up the value chain, so as to ensure a growing share of the market as well as enter into segments that offer higher value per employee. In all these areas the availability of personnel is bound to prove a constraint. The inadequacy of training services resulting from the proliferation of poorly-staffed, profit-hungry teaching shops, and the limited base for training and skilled-development in the domestic software services segment are already evident. As a result even as an outsourcer India still remains a lower-end software supplier and a supplier of IT-enabled services. Heeks [1998] points out that international companies mostly outsource low-end and labour-intensive tasks to India firms, retaining the more skill-intensive, high-end activities like design and product development for themselves.

Further, it is not clear how much of this export revenue is little more than the sale of cheap skilled and not-so-skilled IT-enabled labour services whose output is transmitted via modern communication technologies to sites where those services are required. The possibility of such service delivery has helped India circumvent the obstacle to service exports created by immigration laws in the developed countries. This means that a large part of software exports is not very different from the exports of nursing, carpentry, masonry and other such services, except for the fact that unlike those exports, the presence of the service provider at the point of sale is not required in the case of IT-enabled services.

Thus, conceptually, India's software thrust of the 1990s is not as spectacular as it appears. It is substantially export of lower end software facilitated by the availability of cheap skilled labour. And it is in large part a technology-aided extension of the earlier waves of migration by service-providers of different descriptions: doctors, nurses, and blue-collar workers of various kinds. An expansion of that kind cannot be self-sustaining. Even in quantitative terms the latter development is not spectacular. The net foreign exchange revenue to the country from migration of the old kind, captured by the volume of remittances into India, is in the range of $10-12 billion. The gross foreign exchange revenue from software exports is just $4 billion. [Chandrasekhar 2000]

The micro evidence suggests that women workers are reasonably involved in this sector, and in particular activities their share of employment is much higher than that for the formal sector as a whole. A survey by Nagesh Kumar of 141 sample establishments in activities such as internet/email bureaus, data entry and processing services and software customisation and content development services, in Delhi, NOIDA and Hyderabad, also examined the gender aspect of employment. [Kumar 2001] It was found that 72 per cent of the establishments did not employ any women workers, but customisation services had a relatively large proportion of women, ranging from a quarter to half of the workforce.

In the software industry as a whole the share of women workers is estimated to be 27 per cent. It is interesting that customisation services is the relatively more skill intensive of the activities covered in the survey, but Kumar notes that since back office work, voice mail etc., had been excluded from the survey, some of the activities in which women workers are more significant may have been excluded.

This sector shows clear signs of labour market segmentation by gender, caste and class. Since almost all of those involved are from the urban upper caste English-speaking elite of Indian society, it has been argued that the pattern of development of the software and IT-enabled services sector brings into sharp relief the tendency of the market to reinforce or aggravate existing socio-economic inequities. [Vijaybhaskar et al., 2000] While it will certainly draw more educated women into paid jobs and reduce the problem of educated unemployment to some extent, it would not bring about any major transformation in aggregate employment patterns in the near future.

Summary

Overall, this discussion of patterns of employment in general over the recent past brings to light some disturbing tendencies. These may be briefly summarised as follows:

1. Overall employment growth has decelerated substantially. It is estimated to have grown at around 1.01 per cent per annum in the 1990s compared to 1.55 per cent per annum in the 1980s.
2. Open unemployment emerged as a major problem, even as disguised unemployment continued to be significant. The number of unemployed in 1997 more than the number employed in organised sector.
3. The levels of protection to workers in the economy have been miniscule. Only around 7 to 8 per cent of the workforce in the organised sector is protected while 92 to 93 per cent is in the unorganised sector, is unprotected and vulnerable.
4. There is a trend in growth of casual labour in the total workforce during all these years. The proportion of self-employed has come down from 59 per cent in 1977-78 to 53 per cent in 1999-2000. But the number of casual workers has gone up substantially from 27 per cent to more than 33 per cent.
5. Employment is not growing in the organised sector.
6. The quality of the workforce continues to be a problem, in terms of skill development and education. In 1999-2000, 44 percent of the labour force was illiterate, and only 5 per cent of the work force was estimated to have the vocational skills required in the productive sectors.

V. Labour market policies in India

It is a common misconception among academics and policy makers, that social realities can be altered by legislative fiat. The relationship between laws and social change is complex, multi-directional, many layered and frequently contradictory. But it is always shaped more definitively by political economy and social configurations than by imposition from above, however well intentioned and analytically convincing such imposition may be. It is also the case that the formulation and implementation of laws themselves tend to be substantially affected by social pressures of various sorts. Throughout history and across countries, the recognition and granting of workers' rights have not occurred because of the benign intentions of governments, but because workers and other social movements have struggled and fought for such rights. That is also why, even when such rights are "officially" accepted at both national and international levels, they can be systematically denied to large numbers of citizens because of the prevailing political and material realities.

The rather chaotic regime of labour laws that currently operates in India reflects these tendencies very clearly. On the one hand, the laws are mostly commendable in their declared intentions and acceptance of fundamental rights of workers. However, they are hardly implemented in any meaningful way for most workers in the country, and are generally honoured only in the breach. On the other hand, the laws themselves were legislated at different times in response to particular pressures and with varying motivation, which makes them sometimes sit uneasily together. Indeed, these tendencies are so marked that the Report of the Second National Commission on Labour is quite severe upon them: "It can be said that our labour laws have not flowed from any vision of a harmonious and just social order that takes into account the needs of an efficient and non-exploitative society, or a vision of the rights, duties and responsibilities of the different social partners to themselves, to each other, and to the totality of the community. They have been criticised as being ad hoc, complicated, mutually inconsistent, if not contradictory, lacking in uniformity of definitions and riddled with clauses that have become outdated and anachronistic, in view of the changes that have taken place after they were introduced many years ago." (Report of Second National Commission for Labour, Chapter 1, page 12.)

Going by the statute books alone, workers in India are heavily protected and their rights are quite thoroughly recognised. Thus, the Fundamental Rights enshrined in the Constitution of India include: Right to Equality (Article 14- 18); Right to Freedom (Article 19-22); and Right against Exploitation (Article 23-24). In addition, there are the Directive Principles of State Policy enshrined in the Constitution, which also are supposed to provide major guidelines for state action. These include: the State should aim to secure a Social Order for the promotion of welfare of people (Article 28); Principles of the Policies to be followed by the States (Article 39 which includes the issues relating to equal pay and child labour); Equal Justice and Free Legal Aid (Article 39A); Right to Work; to Education and to public assistance in cases of unemployment, old age, sickness, disablement and undeserved want (Article 41); Provision of Just and Humane Conditions of Work and Maternity Relief (Article 43); Living Wage etc. for workers (Article 43); Participation of Workers in the Management of Industry (Article 43A).

The Directive Principles are not justiceable in a court of law, but they are supposed to indicate the general direction of the policies of the State. For example, the

Directive Principles of State Policy in the Constitution have specifically referred to 'living wages' in Article 43, which is as follows: "The State shall endeavour to secure, by suitable legislation or economic organisation or in any other way, to all workers, agricultural, industrial or otherwise, work, a living wage, conditions of work, ensuring a decent standard of life and full enjoyment of leisure and social and cultural opportunities and, in particular, the State shall endeavour to promote cottage industry on an individual or cooperative basis in rural areas". Clearly, the stated intentions of the Constitution, and therefore of the legal system which it underlies, are inclined to recognised, uphold and protect the rights of workers as far as possible. The actual implementation, is of course another matter.

Under the Constitution of India, Labour is a subject in the Concurrent List where both the Central & State Governments are competent to enact legislation, subject to certain matters being reserved for the Centre. The Union List contains the following**:** Entry No. 55: Regulation of labour and safety in mines and oil fields; Entry No. 61: Industrial disputes concerning Union employees; Entry No.65: Union agencies and institutions for Vocational training. The Concurrent List includes: Entry No. 22: Trade Unions; industrial and labour disputes; Entry No.23: Social security and insurance, employment and unemployment; and Entry No. 24: Welfare of labour including conditions of work, provident funds, employers invalidity and old age pension and maternity benefit.

The ILO declaration on Fundamental Principles and Rights at Work, adopted by the International Labour Conference in June 1998, declares inter alia that all Member States, whether they have ratified the relevant conventions or not, have an obligation to respect, to promote and to realise the principles concerning the fundamental rights which are the subject of those conventions, namely: (a) freedom of association and the effective recognition of the right to collective bargaining (b) the elimination of all forms of forced or compulsory labour; (c) the effective abolition of child labour; and (d) the elimination of discrimination in respect of employment and occupation.

The Government of India ratified Convention 122 on Employment and Social Policy in 1998. Article 1 of the Convention lays down that:

(1) With a view to stimulating economic growth and development, raising levels of living, meeting manpower requirements, and overcoming unemployment and underemployment, each Member shall declare and pursue, as a major goal an active policy designed to promote full, productive and freely chosen employment.

(2) The said policy shall aim at ensuring that: (a) there is work for all who are available for and seeking work, (b) such work is as productive as possible

(c) There is freedom of choice of the employment and the fullest possible opportunity for each worker to qualify for, and to use skill and the endowments in a job for which he is well suited, irrespective of race, colour, sex, religion, political opinion, national extraction or social origin.

On the basis of such commitments, the Second National Labour Commission actually declares that the following rights of workers have been recognised as inalienable and must, therefore, accrue to every worker under any system of labour laws and labour policy. These are:

(a) Right to work of one's choice
(b) Right against discrimination
(c) Prohibition of child labour
(d) Just and humane conditions of work
(e) Right to social security
(f) Protection of wages including right to guaranteed wages
(g) Right to redress at of grievances
(h) Right to organise and form trade unions
(i) Right to collective bargaining, and
(j) Right to participation in management.

While these add up to a formidable array of rights of workers accepted by the Indian Constitution and apparently by officialdom, the problem is that they are rarely achieved or enforced. This is one of the most common – and most effective – criticisms of labour legislation in India. Since it is applied only very selectively and does not cover most workers, it thereby ends up penalising those employers who employ relatively larger numbers of workers and thereby fall under the legal and administrative net. In fact, it is not the case the various provisions are actually applicable only to workers in the formal sector. Laws like the Minimum Wages Act, the Equal Remuneration Act, the Contract Labour Act and so on apply to workers in both the organised and the unorganised sector; even the Industrial Disputes Act applies to large sectors of unorganised labour. However, the sheer practical difficulties and high costs associated with implementation and enforcement of such legal provisions ensures that most workers do not benefit from them. Further, the fact that informal or unorganised activities are growing in terms of total employment, and that in any case a substantial part of unpaid household work is still not even recognised as employment, means that the problem of enforcement of such provisions is becoming more rather than less difficult.

Nevertheless, there are sectors of the economy – notably formal activities in industry and services – where labour laws are enforced. It is precisely with regard to this segment, which is really quite small in quantitative terms as we have seen, that the current debate on labour legislation is centred. Currently, there is no uniformity of pattern in the employment limits prescribed by various labour laws. They range from covering establishments employing 5 persons as in the Motor Transport Workers Act and Inter-state Migrant Workers Act to 10, 20 or 100 as in the Factories Act, Building and other Construction Workers Act, Payment of Bonus Act, Contract Labour (Regulation and Abolition) Act, Industrial Employment (Standing Orders Act). There is even a history of wage limits being prescribed in laws like EPF Act, ESI Act, Payment of Bonus Act etc.

The existing set of labour laws can be broadly grouped into four or five groups of laws pertaining to (i) industrial relations, (ii) wages and other remuneration, (iii) social security, (iv) safety and (v) welfare and working conditions. The laws that are currently most contentious are those relating to industrial relations (specifically, the conditions of hiring and firing) and to wages. In each of these, once again, there is a plethora of legislation, at both the Central Government level and in various State Governments. The basic central laws relating to the subject are the Industrial Disputes Act 1947, the Trade Unions Act 1926 and the Industrial Employment (Standing Orders) Act, 1946.

The Second Labour Commission Report examined the issue of changes in industrial relations in some detail. Some of its conclusions are so significant that they are worth quoting in full:

"A review of industrial relations in the pre-reform decade (1981-90) reveals that as against 402.1 million man-days lost during the decade (1981-90) i.e. in the pre-reform period, the number of man days lost declined to 210 million during 1991 to 2000 - i.e. the post-reform period. But more man-days have been lost in lockouts than in strikes. .. A large number of workers have lost their jobs as a result of VRS, retrenchment and closures both in the organised and the unorganised sector. The exact number is not available. According to our information, no data on this subject has been compiled by any State Government. .. We have received a large number of complaints on VR schemes. We have also been told of elements of indirect compulsion, pressure tactics, innovative forms of mental harassment, compelling employees to resign by seeking to terminate them, and in some cases, physical torture and threats of violence against themselves or dependents.

We shall make a few other general observations on matters that have come before us about the industrial relations scenario.
1) It is increasingly noticed that trade unions do not normally give a call for strike because they are afraid that a strike may lead to the closure of the unit.
2) Service sector workers feel they have become outsiders and are becoming increasingly disinterested in trade union activities.
3) There is a trend to resolve major disputes through negotiations at bipartite level. The nature of disputes or demands is changing.
4) The attitude of the Government, especially of the Central Government, towards workers and employers seems to have undergone a change. Now, permissions for closure or retrenchment are more easily granted.
5) The Conciliation Machinery is more eager to consider problems of employers and today consider issues like increase in productivity, cost reduction, financial difficulties of the employer, competition, market fluctuations, etc.
6) Recovery proceedings against employers who could not pay heavy dues of workers are not being seriously pursued by the industrial relations machinery, if the financial position of the employer is very bad.
7) The labour adjudication machinery is more willing to entertain the concerns of industry."

All of these observations point to a shift in the relative bargaining power in industrial relations, away from workers, to employers. Yet it is worth noting that despite this, the aggregate employment experience has been dismal and deteriorating. It is because the overall employment generation in the system is getting even more unsatisfactory than it has been in the past, that demands are being made for further legal changes that will affect the conditions of hiring and firing of the small group of relatively protected workers employed in organised industry and services. It is being argued that these laws, which restrict employers' rights to dismiss workers at will and stipulate some degree of permanency of employment, act as a major drag on the profitability of the organised sector and on its ability to compete with more flexible labour relations elsewhere. In this perception, a shift towards a more universal contract-based system of labour relations, with no assumptions of permanence of employment, is required to ensure economic progress based on private enterprise within the current context.

There are two important issues to note here. The first is that such a shift towards employment based on specified time-based contracts conflicts with the more general requirement that society must ensure adequate livelihood opportunities (or decent work) to all those who are willing to work. If it is to be possible at all, it requires not only a socially accepted consensus on the new perception of employment, but social institutions that can maintain such a system. Such a system in turn would entail the provision of facilities that would result in constant upgrading of employability through training in a wide spectrum of multiple skills, setting up system of social security that includes unemployment insurance and provisions for medical facilities, and so on. To ensure workers' rights, it would also be necessary to ensure that there would be both individual workers' contracts and collective contracts with the workers unions. It is immediately apparent that this essentially requires the substantial underwriting of a large part of basic labour costs by the state, which is possible only in a very different macroeconomic set up with a much more interventionist government with higher rates of public resource mobilisation and public expenditure.

The second, and possibly even more important, point to note is that in the ultimate analysis, labour laws are perhaps far less significant as factors in affecting private investment, than more standard macroeconomic variables and profitability indicators. Thus, the condition and cost of physical infrastructure, the efficiency of workers as determined by social infrastructure, and the policies which determine access to credit for fixed and working capital as well as other forms of access to capital, all play more important roles in determining overall investment and its allocation across sectors. Even the Second National Labour Commission Report appears to be aware of this. The Report makes the point that " the Commission is of the view that changes in labour laws are only one of the issues involved, and that these have to be visualised and effected in a broader perspective of infrastructural facilities, social security, and Government policies. We, therefore, suggest that these changes be accompanied by a well defined social security packet that will benefit all workers, be they in the 'organised' or 'unorganised' sector and should also cover those in the administrative, managerial and other categories which have been excluded from the purview of the term worker. In evolving such a social security system, it is necessary to provide for both protective and promotional measures, the latter being particularly relevant for the workers in the unorganised sector."

The problem, of course, is that the social security system proposed by the Commission, while highly attractive and desirable in idealistic terms, is completely unworkable within the present fiscal framework, and indeed would be a hard thing for any relatively poor developing country to begin to attempt for all of its workers.[16] In the absence of clear mechanisms defining how such schemes are to be financed, they are likely to remain Utopian ideas. And when they are combined, as the Commission does, with attempts to further undo the rights granted and protection afforded to the small group of organised workers, the result may not be either the improvement of employment conditions or the spread of a viable social security system for all workers, but rather an effect quite the opposite of what is intended: that is, a further worsening of conditions facing all workers in the economy.

Thus, the Commission recommends "the enactment of a special law for small scale units. We have come to the conclusion that the reasonable threshold limit will be 19 workers. Any establishment with workers above that number cannot be regarded as small. The composite law suggested by us for small enterprises has provisions for registration of establishments, (provisions pertaining to) securing safety, health and welfare of the workers, hours of work, leave, payment of wages, payment of bonus, compensation in case of lay off, retrenchment and closure, resolution of individual and collective disputes of workers, etc. The law … also has provisions pertaining to social security."

With respect to retrenchment and closure, the Commission is in favour of granting greater freedom to enterprises, given the current circumstances of global competition and that fact that governmental delays usually mean de facto closure or retrenchment without any compensation to workers. So the Commission believes that prior official permission should not be not necessary in respect of layoff and retrenchment in an establishment of any employment size. However, it wants this done in a way that would "pay adequate compensation, offer outsourced jobs to retrenched workers or their cooperatives, if any enterprise decides to close down give workers or Trade Unions a chance to take up the management of the enterprise before the decision to close is given effect to: underwrite facilities for medical treatment, education of children, etc. and provide for a third party or judicial review of the decision, without affecting the right of the management to decide what economic efficiency demands."

How all this is to be achieved and monitored, is a question that is not really dealt with adequately in the Report. Of course, the Commission does suggest that "Every employer will have to ensure, before a worker is retrenched or the establishment is closed, irrespective of the employment size of the establishment, that all dues to the workers, be it arrears of wages earned, compensation amount to be paid for retrenchment or closure as indicated in the next paragraph, or any other amount due to the worker, are first settled as a precondition to retrenchment or closure."

The Commission also specifies that "contract labour shall not be engaged for core production/services activities. However, for sporadic seasonal demand, the employer may

[16] These include stipulations like the National Minimum Wage, maximum working hours even for unorganised workers, conversion of piece-rate wages into daily equivalents which meet the minimum wage legislated, and so on.

engage temporary labour for core production/service activity." Once again, the issue of monitoring is a crucial one.

But the most crucial monitoring and implementation issues arise with respect to the wage and labour standards that are necessary. About wages, the Commission recommends that:

- Minimum wage payable to anyone in employment, in whatever occupation, should be such as would satisfy the needs of the worker and his family (consisting in all of 3 consumption units) arrived at on the Need Based formula of the 15th Indian Labour Conference supplemented by the recommendations made in the Judgment of the Supreme Court in the Raptakos Brett & Co case.
- Every employer must in addition pay each worker one month's wage as bonus, before an appropriate festival.
- There should be a national minimum wage that the Central Government may notify. This minimum must be revised from time to time. It should, in addition, have a component of dearness allowance to be declared six monthly linked to the consumer price index and the minimum wage may be revised once in five years. This will be a wage below which no one who is employed anywhere, in whatever occupation, can be paid.
- Where wages are fixed purely on piece rate basis the employer should pay at least 75 per cent of the notified time rate wages to the piece rated worker if the employer is not able to provide him with work. Fixation of piece rate wages must be so done as to enable a diligent worker to earn after 8 hours work what would be the time rated daily rate.

All this is supposed to apply to all employers, in whatever sector, and all workers, whether rural or urban, in whichever activity they are employed! Of course these are no doubt praise worthy and desirable outcomes, but the implications of actually implementing this are mind-boggling, and next to impossible in the foreseeable future. In fact, what they would amount to is even greater difficulty of finding such employment for most workers.

For unorganised workers, in addition, the Commission feels that it would be "logical and wise to enact an umbrella type of law for the unorganised sector which would guarantee a minimum of protection and welfare to all workers in the unorganised sector, and would leave it open to the Government to bring in special laws for different employments or sub-sectors if experience indicates the need for it." But the real problem, that of ensuring that such laws are actually implemented and that the incentives within the economy are such as to ensure that the laws are functional, has not been systematically addressed.

This means that the only part of the Labour Commission's proposals that are likely to get genuinely implemented are those relating to easier conditions of hiring and firing in the organised sector. While the condition of the bulk of workers is not likely to improve in consequence of this, those of workers in the organised sector may actually deteriorate as a result. And this in turn will affect the bargaining position of all workers in the country. Therefore, the Report of the Second Labour Commission has not provided any genuinely viable suggestions about how to improve the conditions of the bulk of Indian workers.

VI. Towards a macroeconomic and regulatory framework for India

Clearly, therefore, there is still scope for major changes in terms of the nature of public intervention in labour markets in India, to promote more employment and better conditions for all workers, and to go even some way towards meeting the Government of India's commitments to the ILO of providing decent work. In this concluding section, some attempt is made to provide suggestions that could be considered for generating a macroeconomic and regulatory framework that is designed both to increase aggregate productive employment generation and to ensure the minimum conditions for decent work.

In developing such a framework, certain points should be borne in mind, based on the previous discussion. The first point is that the framework should be such as to allow for the possibility of change in both society and the structure of production. It should be no one's position that existing production and employment patterns should be frozen in their current mould. Rather, the restructuring of production and employment is both necessary and desirable in a dynamic economy. However, obviously, this should be done in a way that ensures the expansion of productive employment opportunities rather than diminution, and more provision of decent work rather than less. That is why strategies that focus on "downsizing" without putting adequate emphasis on the creation of new jobs in the net, are misplaced. Further, the earlier discussion has made it clear that macroeconomic changes are more important than the regulatory framework as incentives for investment and growth. Therefore, there should be immediate emphasis on re-orienting macroeconomic policies towards growth with employment. Nevertheless it is also true that the regulatory framework cannot be ignored either. Clearly, it has to be compatible with growth and restructuring, and therefore allowing for the possibility of closures etc. while protecting the interests of workers as far as possible. But it is one thing to simply put down a list of laws that appear excellent on paper but have no chance of being realised and implemented given the prevailing economic conditions and excess supply in the labour market. The need is to have laws that are not just idealistic but can actually be implemented.

Macroeconomic policies

The analysis of the previous sections has made it clear that the pressing problems of employment generation and poverty reduction cannot be tackled adequately through a macroeconomic strategy that relies on liberalisation and deregulation to deliver growth. Instead, there should be attempts on the part of the government to address these problems directly, in the context of a broader macroeconomic policy framework that reinstates the crucial role of public investment in infrastructure development and aggregate capital formation. There are some obvious examples of short term and medium term policy measures that are in conformity with this basic approach, which are mentioned below.

The Indian economy today is definitely in a situation of unemployment, excess capacity, which suggests the use of Keynesian-style demand revival policies. Such policies are made more feasible by the existence of substantial excess stocks of foodgrain held by the public sector as well as the growing pool of official foreign exchange reserves, both of which are clear indications of the excess of *ex ante* savings over *ex ante* investment. This means that an economic expansion generated by public expenditure is likely to avoid both inflationary and adverse balance of payments consequences, and instead to have a pure expansionary effect. If such expansion generates more economic activity and income then it will also imply more tax revenues, which in turn would also reduce any adverse fiscal effect.

The most pressing immediate problem relates to rural employment, creation, which, as has already been seen, collapsed over the previous decade. The need to devote primary attention to rural employment generation has also been recognised by the Planning Commission's Special Group on Targeting Million Employment Opportunities over the Tenth Plan (2002). To begin with, a large and ambitious Food for Work programme should be launched and implemented, which would over a period of several years reduce the huge excess buffer stocks of foodgrain (more than 65 million tonnes) currently being held by the Food Corporation of India. If the programme is designed to provide at least 30 days of lean season employment for each agricultural labourer in the country, this would amount to at least 3090 million person days of employment, given the number of 103 million agricultural labourers according to the 2001 Census. If it is assumed that 7 kilogrammes of grain is required for each person day of employment, such a programme would use 21.6 million tonnes of foodgrain. Over three years this would help to bring the levels of food stocks back to relatively normal levels, and keep sufficient amounts to act as buffer in periods of sudden shortage.

Such a programme would directly address the most critical problems of slump in rural employment generation, create positive multiplier effects to generate more growth in the countryside, and help to build rural infrastructure which could be important in easing supply constraints in production in the future. The design of such a programme could be modified to make it more flexible in order to meet the different state governments' particular requirements. For example, states could be allowed to use the food grain allocated to them in any manner for employment schemes, including selling a part of the grain to generate cash for the material component of the programme.

In order to address simultaneously the problem of declining food consumption, which is especially marked among the bottom 40 per cent of the population, the Government should return to a policy of *universal* public distribution with access to all citizens, rather than the present orientation, which emphasises targeting the poor households. Not only is such targeting administratively difficult and financially expensive, it has been found that it actually reduces the access of many poor households to cheap food grain. The real problem with the current Targeted Public Distribution System (TPDS) is, first, that it has tended to exclude a considerable part of the population that is poor and under-nourished. Second, it has discouraged very large sections of those not classified as poor to drop out of the PDS. The first of these problems means that not only is targeting imperfect, it provides no fall back for those who might not require PDS supplies in normal time but could do so in the event of large increases in price or shortfalls in income. The problem raised by the second is that the TPDS is now less viable since it has lost a number of its customers and there are also inefficiencies, which are appearing because those who have left the PDS are also those who were most vocal and could insist on better service. In any case, the very existence of dual prices for the same commodity from the same shop is an invitation for corruption and it is the considered view of the committee that this is undesirable in principle. It would be better to retain just one price and a universal PDS and make available any additional benefit to BPL customers in the form of coupons entitling them to a discount over the normal price.

The Central government should therefore allocate grain to the states on the basis of per capita entitlement rather than per household and according to some estimation of the number of poor households. For a universal system, it is essential that the public food delivery system be revived and strengthened, and the network of ration shops and fair prices shops should be extended, especially to drought-prone, backward and remote areas. Given the limitations of the PDS to target adequately it is necessary to consider other methods of targeting. These include existing programmes such as Mid-day Meal Schemes, The Integrated Child Development Scheme and the Annapurna Scheme. Various other welfare programmes can be extended, including the mid-day meals for school children, nutrition programmes for pregnant and lactating mothers, etc. In addition, new schemes can be thought of, such a Food for Education Programme, which would provide a grain incentive to households whose children attend school regularly.

The standard counter-argument of proponents of neo-liberal reform is that these policy options are infeasible since they would result in an increase in the fiscal deficit and contribute to the already unsustainable level of public debt. There are three reasons why that argument is fallacious. First, insofar as food stocks carried by the government in 2001, which added to its expenditure, would constitute a significant chunk of the "expenditure" incurred on a food-for-work programme, it would make no difference to the fiscal and debt situation. Second, even to the extent that such a programme involved a non-food financial component, that additional expenditure would in large part be financed by the increases in tax and non-tax revenues of the government that an increase in output and demand would entail. And, finally, given the already low levels of the tax-GDP ratio in India, the government was definitely in a position to increase tax rates and widen the tax base to raise the tax-GDP ratio. This would go a long way in financing the expenditures that would be incurred.

The last of these reasons points to a second area in which initiatives are required to halt and reverse trends associated with the neoliberal reform process, namely, the long-term decline in the tax-GDP ratio. It is no doubt true that intensifying the tax effort and allowing, if necessary, the deficit on the government's budget to rise, while making economic sense in the current context, would be received with alarm by foreign capital, in particular foreign financial capital. This has provided advocates of reform with the argument that such moves, when not favoured by international finance, can lead to a decline in capital flows and even capital flight that would precipitate a financial crisis.

This, however, does not mean that the effort at adopting appropriate economic policies aimed at restoring domestic economic balance should be abandoned, but rather that the terms on which foreign financial capital flows into and operates in the country need to be regulated. Policies such as minimum lock-in periods, differential rates of capital gains taxation for gains registered through short and medium-to-long-term investments and even a transactions tax of the Tobin-tax kind need to be imposed, to reduce the volatility of and the country's dependence on cross-border financial flows. This would allow for greater autonomy of domestic policy making, designed to revive economic growth and generate more employment.

Some degree of control over external account transactions would also allow for a greater role of public expenditure in reducing the industrial recession, which does not otherwise show any signs of reversing. Public investment, especially in infrastructure, is well known to generate positive linkages with private investment; in addition, there is the apparent evidence that Indian industry currently is not only constrained by demand, but by specific infrastructural bottlenecks such as poor transport infrastructure and clogging or ports, etc. Taking all these into consideration, there is a very strong case for enhanced public expenditure, especially on physical and social infrastructure, which would generate more jobs both directly and indirectly through its linkage and multiplier effects.

There are also trade policies that have had direct (and typically negative) effects on employment. While the expansion in services trade, and especially the recent expansion of opportunities for employment in IT-enabled service activities, has definitely meant an improvement in educated employment conditions, the same is not true for goods trade, in which the net effect has been substantial loss o employment thus far. The need therefore is to mitigate as far as possible the adverse effects of more liberalised trade on employment especially for small-scale units in both agriculture and industry. It must be remembered that such units are operating under many disadvantages relative to competitors abroad, both in terms of poor infrastructure and lower access to credit facilities, and therefore find it difficult to survive external competitive pressure. In agriculture, especially, Indian cultivators are forced to compete with agricultural production in the OECD countries that continues to be highly subsidised. There is a case therefore, not only for higher tariff rates on such imports, but also variable tariff structures (which are in fact WTO-compatible) that would fluctuate as the import prices change, in order to maintain some degree of stability in domestic prices of those goods.

Labour market regulation

While the facts of greater dynamism in the labour markets and enhanced employment generation necessarily mean that there would be better employment prospects for potential workers, they do not in themselves ensure that the quality of employment would improve. Of course, it has been found that employment expansion over time generally leads to improved bargaining positions and better working conditions for workers generally. But the need for labour market regulation is not thereby reduced; rather, it means that the regulation must be such as to combine flexibility and worker protection.

In this context it is important to remember that changes in labour market regulation alone do little to change the broad context of employment generation and conditions of work, if the aggregate market conditions themselves are not conducive to such change. The current approach of the Government of India appears to be that changes in the laws with respect to worker protection and compensation would in itself be enough to ensure more private investment activity and more employment by private entrepreneurs. But it has already been argued in this paper that such optimism is not warranted, and that indeed regulatory provisions are neither enforceable, nor have much effect on employment levels, in terms of preventing additional employment expansion.

This means that the regulatory framework remains important essentially as a basic premise that can affect the bargaining position of workers. It is seen as a necessary condition (but not a sufficient one) for improving wages and conditions of work. That is why it is both important and necessary to ensure that are laws and provisions guaranteeing workers' protection and safety, even if they are not enforced. These should be seen not as welfare measures granted by a benevolent state, but rather as government's recognition of the basic socio-economic rights of workers as accepted under the Universal Declaration of Human Rights. While the existence of such laws does not ensure compliance, and indeed compliance or implementation is impossible to ensure for the whole population in the current circumstances in a country like India, it does provide a basis for workers themselves to bargain and combine collectively to try and ensure their enforcement.

Therefore, the important point that emerges is that anything that erodes the powers of association of workers and the process of collective bargaining, should be actively avoided in setting up the regulatory framework in the labour market. This is what makes the recommendations of the Second Labour Commission so problematic, as already discussed. Labour market regulation should be focussed on ensuring for workers their rights of association and to decent work, and should protect workers from the more obvious and blatant forms of oppression such as use of child labour, bonded or tied labour, and so on. The regulation should also be such as to prevent employers from being vindictive or punitive towards workers who do organise and mobilise for better conditions of work and wages.

At the same time, of course, it is clear that such laws cannot be so rigid as to make it difficult for employers to respond effectively to what are much more fluid and volatile conditions of production and competition. In essence this means that the laws should be such as to allow for closures and job loss where these cannot be avoided. But these should always be with adequate compensation, and with encouragement and assistance for mobility of workers across activities and even if possible across regions. There should also be a greater attempt to make such laws applicable across all sectors of productive employment, including in agriculture, and to encourage the mobilisation and association of rural workers as well as urban.

In sum, therefore, the need is to ensure that legislation continues to ensure workers their basic rights and especially allows them the power to associate and bargain collectively in order to ensure that they do actually have what are recognised to be their socio-economic rights. But even more important than this, is the recognition from governments that a focus on macroeconomic policies for employment generation should dominate the overall economic strategy and determine specific policies as well.

VII. References

Anand, Harjit S. [2001] "Linkage between formal and informal sectors : Some findings from microlevel studies", in Amitabh Kundu and Alakh N. Sharma (eds) **Informal Sector in India : Problems and policies**, Insitute for Human Development : New Delhi.

Bonacich et al, (eds) **Global Production: The Apparel Industry in the Pacific Rim,** Temple University Press: Philadelphia.

Bose, A.J.C. [1996] "Subcontracting, industrialisation and labouring conditions in India : An appraisal", **Indian Journal of Labour Economics**, Vol. 39 No. 1., pp 145-162.

Chandrasekhar, C. P. [2000] "ICT in a developing country context : An Indian case study", Background Paper for **Human Development Report 2001**, New York : UNDP.

Chandrasekhar, C. P. and Jayati Ghosh [2002] **The market that failed: A decade of neoliberal economic reforms in India**, New Delhi: Leftword Press.

Das, Keshab [2001] "Wages and earnings in informal manufacturing : Evidence and issues in estimation", in Amitabh Kundu and Alakh N. Sharma (eds) **Informal Sector in India : Problems and policies**, Institute for Human Development : New Delhi.

Deshpande, Sudha [2001] "Impact of emerging labour market on women and their households : a tale of three slums in Mumbai", in Amitabh Kundu and Alakh N. Sharma (eds) **Informal Sector in India : Problems and policies**, Insitute for Human Development : New Delhi.

Gayathri, V. [2001] "Social security for women workers", in S. Mahendradev et al (eds) **Social and Economic Security in India**, New Delhi : Institute for Human Development.

Ghiara, R. [1999] "Impact of trade liberalisation on female wages in Mexico", **Development Policy Review,** Vol. 17 No. 2.

Ghosh, Jayati [1998] "Assessing poverty alleviation strategies for their impact on poor women : A study with special reference to India", **UNRISD Discussion Paper**, Geneva.

Ghosh, Jayati [1999a] "Macroeconomic trends and female employment : India in the Asian context", in T. S Papola and Alakh N. Sharma (eds) **Gender and Employment in India,** New Delhi : Vikas Publishing House.

Ghosh, Jayati [1999b] "Trends in economic participation and poverty of women in the Asia-pacific region", UN-ESCAP Bangkok, also available at website http://www.macroscan.com

Ghosh, Jayati [2001a] "Urban Indian women in informal employment : Macro trends in the 1990s", in Amitabh Kundu and Alakh N. Sharma (eds) **Informal Sector in India : Problems and policies**, Institute for Human Development : New Delhi.

Ghosh, Jayati [2001b] "Globalisation, export-oriented employment for women and social policy: A case study of India", UNRISD Discussion Paper, also published in Social Scientist, 2002.

Ghosh, Jayati [2002] "Social policy in Indian development", in T. Mkandawire (ed) **Social Policy**, Geneva: UNRISD, forthcoming

Ghosh, Jayati and C. P. Chandrasekhar [2001] **Crisis as Conquest : Learning from East Asia**, New Delhi : Orient Longman.

Heeks, R. [1998] "The known profile of Indian software exports", Development Informatics Working Paper Series No 3. University of Manchester.

Jhabvala, Renana and R. K. A. Subrahmanya (eds) [2000] **The unorganised sector : Work security and social protection**, Sage Publications, New Delhi.

Joekes, Susan [1999] "A gender-analytical perspective on trade and sustainable development", **Trade, Gender and Sustainable Development**, UNCTAD, Geneva.

Kumar, Nagesh [2001] "Small information technology services, employment and entrepreneurship development : Some explorations into Indian experience" in Amitabh Kundu and Alakh N. Sharma (eds) **Informal Sector in India : Problems and policies**, Institute for Human Development : New Delhi.

Labour Bureau [1995] **Report on the Working and Living Conditions of Workers in the Beedi Industry in India,** Ministry of Labour, Shimla/Chandigarh.

Lalitha, N. [1999] "Women in the unorganised manufacturing sector : A sectoral analysis", **Indian Journal of Labour Economics**, Vol. 42 No. 4 pp 641-650.

Mahadevia, Darshini [2001] "Informalisation of employment and poverty in Ahmedabad", in Amitabh Kundu and Alakh N. Sharma (eds) **Informal Sector in India : Problems and policies**, Institute for Human Development : New Delhi.

Mahendradev, S. [2001] "Social security in India : Performance, issues and policies", in S. Mahendradev et al (eds) **Social and Economic Security in India**, New Delhi : Institute for Human Development.

Mukhopadhyay, Swapna [1999] "Locating women within informal sector hierachies", in T. S Papola and Alakh N. Sharma (eds) **Gender and Employment in India,** New Delhi : Vikas Publishing House.

Mukul [1998] "Homeworkers : High hopes and hard realities", **Economic and Political Weekly** Vol XXXIII No 14 pp 758-764.

NASSCOM [1999] Highlights of the NASSCOM-McKinsey Study Report, available at http://www.nasscom.org.

Neetha, N. [2001] "Gender and technology : Impact of flexible organisation and production on female labour in the Tirupur knitwear industry", mimeo, V. V. Giri National Labour Institute, NOIDA, Uttar Pradesh.

Probe Team [1999] **Public Report on Basic Education in India**, New Delhi : Oxford University Press.

Raman, R, Anant, [1989] **Review of Free trade Zones in Developing Countries**, Indian Institute of Foreign Trade, New Delhi.

Ramaswamy, K. V. [1999] "The search for flexibility in Indian manufacturing : New evidence on outsourcing activities", **Economic and Political Weekly** Vol XXXIV No 6, pp 363-368.

Sen, Abhijit [2002] "Agriculture, employment and poverty: Recent trends in rural India", in V. K. Ramachandran and Madhura Swaminathan (eds) **Agarian Studies**, New Delhi: Tulika Books.

Sen, Abhijit and Jayati Ghosh [1993] "Trends in rural employment and the poverty-employment linkage", Working Paper ILO-ARTEP, New Delhi.

Serven, Andres and G. Solimano [1994] **Links between public and private investment**, Washington, D. C.: The World Bank.

Shah, Nandita and Nandita Gandhi [1992**] Shadow Workers : Women in Home-based Production**, Bombay

Shah, Nandita and Nandita Gandhi [1998] "Industrial restructuring : Workers in plastic processing industry", **Economic and Political Weekly** Vol XXXIV No 22 pp L12-L29.

Sundaram, K. [2001] "Employment-unemployment situation in the Nineties: Some results from NSS 55th Round Survey", Economic and Political Weekly 17March.

Suri, G. K. (ed) [1988] **Small-scale enterprises in industrial development : The Indian experience**, Sage Publications, New Delhi.

UNCTAD [1998,2000] **Trade and Development Reports,** Geneva.

Vijay, G. [1999] "Social security of labour in new industrial towns", **Economic and Political Weekly** September 25, Vol. XXXIV No 39 pp L10-L18.

Vijaybhaskar et al [2000] "What happens to formal employment in the Indian software industry", paper presented at 42nd Annual Conference of Indian Society of Labour Economics, forthcoming in Conference Issue **of Indian Journal of Labour Economics**.