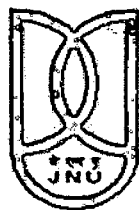


**LABOUR REFORMS AND EMPLOYMENT TRENDS IN INDIA:  
1991-2005**

Dissertation submitted to the Jawaharlal Nehru University in partial  
fulfillment of the requirements for the award of the Degree of

**MASTER OF PHILOSOPHY**

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## CERTIFICATE

It is certified that the dissertation entitled "LABOUR REFORMS AND EMPLOYMENT TRENDS IN INDIA: 1991-2005" submitted by Ms. Paramjyoti Sharma is in partial fulfillment of the requirement for the award of the Degree of Master of Philosophy of this University. This dissertation has not been submitted for the award of any other degree in this University or any of the University and is her own work. We recommend that this dissertation be placed before the examiners for evaluation.

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This work is dedicated to my parents and my sister.

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## INTRODUCTION

The economic reforms in India have provoked an intense debate around the outcome that they have produced for the labour both in the organized as well as in the unorganized sectors. In this context the present study 'Labour Reforms and Employment Trends in India:1991-2005' looks at the changing trends in the employment scenario. It tries to provide an analysis of the linkages the labour reform processes and employment outcome since the early 1990s.

Generating employment for the Indian labour force has remained the one major aim and task of every Five Year Plan because the employment matters a lot to those who have nothing but to sell their skills and labour in the market to cash their livelihood and support the number of dependents on them. In the Indian context, development and employment are seen as the mean and end, respectively.

In this regard, Kamal Narayan Kabra notes, "development in a sense, but another name for employment opportunities (GOI, 1953, p. 24)... The approach to the employment objectives evolved as a part of the development strategy devised in the First Plan document continued in its essentials ... with some modifications, refinement, fine-tuning and in certain respects greater degree of realism in some sectoral, regional and programme aspect".<sup>1</sup>

Eighth Five Year Plan can be seen as a departure from the socialist thinking on the part of the government which was adopted in the midst of the new economic reforms.

The word reform connotes different meanings. According to Jos Mooij,

"The term reform can be used in different ways. It can refer to macro economic changes regarding fiscal monetary and financial policies but it can refer to changes in the sectoral policies (in the agriculture industry or social sector) as well as to the changes in the system of administration or mode of govt. in a broad sense, reforms refers to almost all the policy changes that have taken place and that politicians and policymakers choose to present as a part of the reform process".<sup>2</sup>

The word liberalization as has been observed by the Jayati Ghosh, "is ill-defined and unfortunately prone to multiple interpretations. The most common connotation of the term when used in the context of economic policy is that reducing government regulation of economic activity and the space for state intervention and allowing for the unfettered operations of market forces in determining economic processes".<sup>3</sup>

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<sup>1</sup> Kabra, Kamal Narayan " Political Economy of Employment Planning in India", *The Indian Journal of Labour Economics*, Vol. 36, No. 4, 1993. p. 526-527

<sup>2</sup> Mooij, Jos (ed.), *The Politics of Economic Reforms in India* (New Delhi: Sage Publications, 2005), p.18

<sup>3</sup> Ghosh, Jayati "Liberalization Debates" in, Terence, J. Byers,(ed.), *The Indian Economy; Major Debates since Independence*, (Delhi: Oxford University Press, 1998),p. 295

The Indian economy is introduced to the economic reforms after the 1990 balance of payment crisis. The crisis had emerged because of the unstable growth of 1980s, which was achieved with large govt. deficits and rising debts. In addition the factors that made the problem more severe is the oil supply disruptions after 1990s, Gulf war and the political instability after 1990s prevailing within the country. Earlier also, Indian economy has stepped towards the liberalization, through limited in its nature and coverage.

These new economic reforms have adopted under the name of New Economic Policy and also New Industrial Policy in 1991-92 by the govt. of Congress (I) headed by P.V. Narasimha Rao. It is generally viewed that these reforms are given to the policymakers as the prescribed medicine by the World Bank and International Monetary Fund, when the Indian government asked for the monetary aid. These reforms come in standardized package, which had been given to all the countries that had approached to the above stated institutions for monetary aid, without considering the different socio-politico-economic structure of these countries.

Adoption of these reforms has generated a great debate on the question of impact of these reforms on the whole economy ultimately affecting the common man. The votaries of the reforms argue that economic reforms will put the Indian economy on the path of rapid growth and development which would result in the trickledown effect, benefiting the Indian masses even at the grassroots level. They argue that these reforms affecting every sector of the economy will expand the production, efficiency level and output, which would provide greater employment opportunities for Indian masses, though there will be shrinkage in the availability of employment opportunities, but all will turn out to be in a good shape in the long run.

“The Eight Five Year Plan has placed the structural adjustment programme as the focus of the plan which is treated as superior to the plan objectives. However, in keeping with the tradition of vexing eloquent on various desirable objectives, the Eight Plan reiterates the employment objective as well. Bu it has been demonstrated convincingly and accepted even by the votaries of the SAP (Structural Adjustment Programmes) that its immediate recessionary thrust would cause a net reduction in organized section employment with similar repercussions in the unorganized informal sector (PRIG, 1992)”<sup>4</sup>.

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<sup>4</sup> Kabra, Kamal Narayan “Political Economy of Employment Planning in India”, *The Indian Journal of Labour Economics*, Vol. 36, No. 4, 1993, p. 533

There are others who believe that the economic reforms will increase the vulnerability of the Indian economy in the globalized economy as everything will be decided by the market forces of demand and supply. This will greatly affect the people as majority of Indian population is still illiterate and unskilled.

Economic Reforms consisted of two processes, namely, Stabilization and Structural Adjustment. To facilitate these processes, different sectors of the Indian economic namely, trade, industries etc. has been put to the new path of growth with different reform packages. In India, stabilization process has been adopted first to tame down the deficits and then only the structural Adjustment. One important thing to be noted here is that, these reform packages that are introduced have been formulated for and implemented mostly in the organized/formal sector of the economy. The other side of the economy, i.e. the unorganized/informal sector has not been considered by the policymakers while adopting the reform policies, even when the majority of the Indian labour force is working under its umbrella. It has been argued that the economic reforms will need similar reforms in other areas also like health, education and labour policy; then only the real development can take place which will raise the living standard of people of India and will help in eliminating the vicious circle of poverty. While other sectors do not come in the limelight immediately after the adoption of reform policy, labour policy of Indian government attracted wider attention, though for wrong reasons.

On this, Supriya Roy Chowdhury writes, “Labour constitutes one of the most important arena of restructuring during a process of adjustment and marketization. In India, however, the question of labour, at least in the first decade of economic reforms, drew more attention from academics and activists than from policymakers”<sup>5</sup>

The whole issue of labour reforms is considered as a thorny issue and ever remained an area of contention between different stake holders.

Supriya Roy Chowdhary comments that , “The reason for this is obviously political; organized labour commended a unique position amongst major stakeholders in the limited welfaristic system hat was introduced post-independence and constituted itself as a favoured client of the state in the decade that followed. As such, inn the initial years after liberalization was introduced. As such, in the initial years after liberalization was introduced. There was a certain evasion of policy issues that might involve a significant overhauling of labour laws and labour institution. Thus,

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<sup>5</sup>. Chowdhary, Supriya Roy “Labour and Economic Reforms: Disjointed Critiques” in Mooij, Jos (ed.), *The Politics of Economic Reforms in India*(New Delhi: Sage Publications, 2005), p.264

privatization, disinvestment, labour rationalization in the public enterprises – all of these were placed on the back burner. Meanwhile, the policy apparatus went ahead with elements of liberalization that had no direct or immediate negative implications for labour, as in the sectors of finance, capital markets, taxation and soon”<sup>6</sup>

But the voice for labour reforms has become stronger and the capital owners wanted some serious overhauling in the labour laws in the name of flexibility as the precondition of the competitive market. They demand reduction in the labour regulations which are considered as highly protective in nature, providing a shield to the workers in all situations. But the trade unions and others believe that such reform will greatly affect the labour of India and will put them on the mercy of their employers who are always seen as the exploiters of labour.

Labour reforms, as suggested by its supporters, will provide more employment opportunities for the labour force, as because of restrictions by the law, indirectly force the enterprises to adopt the capital intensive techniques and not the labour intensive techniques. 15 years down the line after the adoption of the economic reforms, in the midst of years and India's GDP growth has increased, it is now considered as the strong partner in the world economy but majority of the Indian workforce is finding it difficult to get job and even if got it, find it difficult to sustain it. There is an acute shortage of employment especially in the organized sector, though it was assured that this is only a short term problem and in the long run there will be more employment opportunities availability. The acuteness of the shortage of employment in comparison to the increase in the labour force is clearly indicated in the adoption of various Commissions to look into the problem. It has been observed there is a huge backlog in the Indian labour market seeking job and addition to these there is a flux of new entrants in the labour market every year. If not tackled quickly, this problem will lead to a major social problem. The problem is even more severe for the women, who still work in the unorganized sector of the economy without any security. It was hoped that the adoption of reform policies will help women to get jobs in the new economic activities, but nothing has changed for women workers. It has been observed that as the time passed down number of casual workers, non permanent workers, temporary workers, home based workers and part-time workers will be

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<sup>6</sup> Ibid



The research work is started with hypothesis that though the Indian economy growth has been able to come out of the age old 3 percent mark with high rate of economic growth averaging 5-6 percent, but the employment growth has not been able to increase the number of employment opportunities available to the Indian labour force. The Indian employment generation has not only been stagnated but also has declined over a period time after adopting the liberalization policy. The research work looks into the employment generation capacity of different sectors and will try to locate sectors, if there is any, which has been able to generate more employment for the Indian workforce. Another hypothesis of the undertaken research work is that the economic reforms have increased the flexibility and informalization in the Indian economy especially with regard to the organized sector. Here, flexibility and informalization is related to the increasing use of contract workers, part time workers and temporary workers with the rise in the practice of outsourcing and subcontracting. In this scenario, informal sector is doing well especially after the reforms introduced in the Indian economy. This sector is expected to expand and generate more employment under its umbrella at the time when the gates of formal sector employment has been closed for the workforce.

This study is based primarily on the empirical evidence collected from relevant sources. In methodological terms it is broadly analytical as it attempt to elaborate the key questions. To analyze the situation in the Indian economy with regard to the employment available data from official documents and other published works are used.

The study is organized around four chapters. Chapter 1, titled, Economic Liberalization in India: A Critical Review is an attempt to understand the process of liberalizing the Indian economy, which was considered to highly planned and regulated under the dictates of central government, which was considered as a necessary condition to make a backward economy into the developed one with the aim of establishing Socialist society. But with the passage of time, severe crisis emerged in front of the Indian economy, which tried to break out the shackles of regulations but could not do so entirely. It was only in the 1990s that the Indian political leaders unshackled the Indian economy and opened its gate for foreign and domestic private players. This chapter will look into the cause for adopting the liberalization policy. It further looks into different sectoral policies adopted to make

different sectors more investment friendly and profit making. Before that, different views on the liberalization policy, some favouring and some criticizing it has been provided. Next section of the chapter, provides some description of the impact of the liberalization on the Indian economy as a whole and also on individual sectors. In the end, the chapter throws light on the changing role of the state in the era of liberalization.

Chapter 2 on Labour Reforms, : Sectoral Perspectives and Debates tries to analyze the whole issue of labour reforms, debate in India which emerged after the initiation of economic reforms. This chapter will try to show that the whole debate on labour reforms ha been rather narrow, in a sense that it is limited only to amending the existing laws regarding the labour and employment. The chapter will look into the most contentious laws and their different provisions, which have been held responsible for making the Indian labour market very inflexible.

Chapter 3 titled Employment in the Formal Sector: An Appraisal, focuses on employment in the formal sectors of the Indian Economy, concentrate on the organized sector or the formal sector of the Indian economy and the emerging trends in the employment scenario. The chapter will also try to differentiate between the organized and unorganized sector or the formal sector and informal sector. It will also provide brief description about the women employment in the organized sector.

Chapter 4 , titled, Employment Trends in the Informal Sector: 1991-2005 in it, will look into the unorganized/informal sector of the economy with different characteristics of the sector being highlighted by different scholars while conceptualizing the informal sector. Further, the chapter will look into the possible ties between formal and informal sector and show that at tome level, these ties are exploitative in nature for unorganized sector. This chapter will further provide the emerging trends in the informal section with regard to the employment in this sector. In the end, the issue of social security is more important for vulnerable section of the society especially women working in the informal sector. The main findings of the study are outlined in the conclusions.

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## **CHAPTER-1**

### **ECONOMIC LIBERALIZATION IN INDIA: A CRITICAL REVIEW**

The year 1991 has started a new era in India with the adoption of the economic reforms. Economic reforms, as being understood, in the context of the Indian economy is its liberalisation in order to merge it with the globalised economy. Economic reforms include two policies, namely, stabilization and structural adjustment. The need for economic reforms was raised by various domestic and international factors playing important role in opening the gates of the Indian economy which were earlier closed because of the prevalence of strong socialist and import substitution ideologies. Liberalizing the Indian economy, before 1990s, was not even considered by the policymakers, as the Indian economy was not considered to be developed enough to work without the support of the state. The Indian economy was not able to come out of its underdevelopment and backwardness even in almost five decades of the planning era. But this was not the only reason to liberalize the Indian economy. Economic reforms came with the monetary aid that was provided by the International Monetary Fund to bail out the Indian economy from the balance of payment crisis in 1990. The reforms were consisted of various packages for different sectors of the economy in order to make these sectors more profitable and efficient. The reforms were initiated with the aim to achieve the higher growth which will ultimately benefit the Indian people. This chapter is divided into four main sub-parts. First section provides the causes that led to the initiation of the reforms in the Indian economy. Second section looks into the debate around the issue of economic reforms by different scholars and policymakers. Third section looks into the impact of reforms on different sectors of the economy and sees if the reforms have managed to achieve its aim. The fourth section provides a debate on the notion of the changing role of state in the era of liberalized economy.

The grim situation of the Indian economy was well noted by the Anne O Krueger and Sajjid Chinoy that by the end of the 1980s,

“the share of the government spending in GDP rose rapidly during the decade, while revenues grew much more slowly. By the end of the decade, India’s fiscal deficit was averaging well above 8 percent of GDP-an unsustainable number.....inflation reaching an annual average rate of over 7 percent rate in the second half the 1980s and 13.5 percent by 1991. By 1990 import had to be cut back as financing was simple not available. By 1990 subsidies as a proportion of Central Government had reached to 11.6% of the entire Central Government expenditure and 2.3% of GDP. Total plan

assistance to the State was 12.1.% of total Central Government expenditure while non plan loans to the states constituted additional 7.1% of Central Government expenditure and 1.4% of GDP. The current account deficit was running at an annual rate of about U.S. Dollar 10 Billion while reserves were down to about two weeks of imports”.<sup>1</sup>

1980s witnessed the Indian economy recovering from the downward trend and showed signs of positive movements with the GDP growth raising to well above the prevailing 3% of growth. This growth was achieved with the state support, relaxation in the terms of import and external borrowings that disturbed the fiscal position of Government. In 1980s, the then Prime Minister Smt. Indira Gandhi tried to come out of the slow growth pattern of economy under the highly centralized, planned and nationalized economic policy. It was under her leadership that a new Industrial policy statement of 1980s was formulated with the twin aims, namely, higher production with maximum utility of available resources and making the public sector enterprises (PSEs) more efficient.

The then Government appointed three committees to re-examine the working of Indian Economy which submitted their reports with the suggestion of “cautious and hesitant liberalization” with “limited autonomy for public sector undertakings”.<sup>2</sup>

After her, Prime Minister Rajiv Gandhi, embarked the journey of the Indian economy towards liberalization. But liberalization policy that was adopted was limited to domestic economic players only. Adopting liberalization policy of economy was not an easy task for India, as it will too a greater degree turn the path of economic development against the Nehruvian socialism which was very dear, ideal, not only for political leaders of that time but also for the people, there was a general lack of faith towards foreign investment in domestic markets (due to the worst experiences of East India Company’s Trade and Investment Policy which later turned into Imperialism and Colonialism of India) and also towards private capitalism (maybe because of Zamindari system and worst practices followed by money lenders in terms of high interest rates).

1980s though enjoyed the high growth rate on the one hand but on the other hand it saw the Government falling into the trap of debt because Government was borrowing

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<sup>1</sup> Krueger, Anne O. and Sajjid Chinoy, “The Indian Economy in Global Context”, in Krueger, Anne O., (ed.), *Economic Policy Reforms and the Indian Economy* (New Delhi: Oxford University Press, 2002), p.16

capital to provide stimulus to the economic development from international commercial institutions and NRIs at a very high interest rates to meet its growing expenditures and also to repay loans and to pay increasing interest on loans not paid. The growth of 1980s, one can say, was artificial and not real, which in turn raised the Government expenditure way ahead of the revenues generated by the Government. With the liberalization of import to some extent made Import Bills grow manifolds as compared to the revenue generated by Exports led to further disturbance in the Balance of Payment. Decade of 1980s saw increasing share of debt GDP ratio which resulted in the loss of confidence of loan lenders and bilateral and multilateral institutions and aids given by nations. This paved the way for the sky rocketing public debt and severe problem of deficits for the coming Governments.

Public Sector Enterprises had grown under the umbrella of highly centralized and planned economic policies. These are Government Undertakings (Central, State and local bodies). Entire expenditures are incurred on the Government bills, such as, paying wages to the employees and bills of Electricity etc. These enterprises were established soon after the independence of India to provide the necessary goods and services to the people of India at a very minimum cost that can be paid by everyone or sometimes providing even free. Profit making was not the main aim behind running these enterprises by the Government. A.B. Singh and Anurag Singh note that the investment in the central public enterprises have been continuously rising. They write, “With the on set of first Five Year Plan, the Government of India established five central public enterprises, by the 1991 they increased to 244 with the investment of Rs. 99315 Crores”.<sup>3</sup>

These enterprises are the source of huge employment to large number of people. With all these objectives, Public Sector Enterprises were given sort of oligopoly in their production area where private capital industries were not given permission to enter. It was because of the two following reasons:

1. Public Sector Enterprises produced those goods and services like Railways and Postal services which are essential in nature. In order to provide these to everyone, the cost was fixed at a very minimum level. As there is no profit in providing the goods and services produced mainly by these enterprises, it has been argued that no private capital industry can produce anything without earning profits.

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<sup>2</sup> Suresh D. Tendulkar and T.A. Bhawani, *Understanding Reform* (Oxford University Press, 2007), p.

<sup>3</sup> Singh, A.B. and Anurag Singh, *Public Sector Reforms in India a Case Study of ONGC*, (A.P.H. Publish Corporation, 2004), p. 13

2. These Public Sector Enterprises involved heavy infrastructural costs at the beginning and also high maintenance costs, which could not be paid by Indian capitalists at that point of a time.<sup>4</sup>

All heavy industries and strategic industries, such as, Coal and Petroleum, Steel, Electricity generation and distribution and Defence are reserved for Public Sector Enterprises like SAIL, MTNL.

Enjoying the monopoly Public Sector Enterprises, it tended to relax and there was total lack of competitive nature of market that gives the push towards excellence and there was no eagerness to adopt new improved technical know-how. To provide goods and services to people at a very minimal costs, Public Sector Enterprises incurred very heavy losses as manier a times these industries are unable to collect the revenue to meet the costs of generating goods and services. These losses not only were paid by the Government but also Government provided more capital to Public Sector Enterprises for enabling them to function. This also added to the increasing expenditure of Government.

Indian Domestic Private Industries were discouraged to flourish not only because of the reservation of areas of productions for Public Sector Enterprises, private industries had to face very rigid and time consuming “Licence Raj”. Ratnakar Gedam, notes that the Licence Raj was established with the enactment of Industrial Development Regulation Act of 1951 which stated in the Section 10 of the Industrial Development Regulation Act of 1951 that,

“no person or authority other than the Central Government shall after the commencement of IDR Act establish any new industrial undertaking, except under and in accordance with the licence issued in that behalf by the Central Government”.<sup>5</sup>

Big industrial houses of India had to face another problem, i.e. Monopolies and Restrictive Trade Practices (MRTP), Act, which blocked any further extension and diversification in other areas by these houses. According to MRTP Act, all firms and

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<sup>4</sup> Mahalanobis justified the undertaking of heavy and basic industries by the Public Sector Enterprises on two grounds, mainly, because these industries are capital intensive and these will channelize the public sector growth accord to social priorities, in Tendulkar, Suresh D. and T.A. Bhawani, *Understanding Reforms*, (New Delhi: Oxford University Press, 2007) p. 25.

<sup>5</sup> Gedam, Ratnakar, *Economic Crisis and Political Disaster*, (New Delhi: Heritage Publishers, 1993), p. 26

inter-connected undertaking with assets Rs. 100 Crores required special approvals to undertake new investments.

Rakesh Mohan observes that, “Small Scale Industries were somehow not required to go for licence but they were controlled and regulated by the terms and conditions for capital investment. Small Scale Industries enjoyed same sort of preference from state as the Public Sector Enterprises enjoyed. Their areas of production were reserved and these were provided loans through Development Banks at low interest rates. He further writes that,

“Commercial banks were required to allocate at least 15% of all bank credit to small scale industries. Adding to this, Small Scale Industries were exempted from paying Excise Duty and even if required to pay , it was kept very low. State Industrial Corporations provide infrastructure and Industrial Plots at a concessional rates to small scale industries”.<sup>6</sup>

All such available support was enough to stop Small Scale Industries from expanding and improving their production.

Because of all these unnecessary restrictions, regulations, delays and licencing and preferential treatment of one sector of manufacture than others in terms of providing explicit and implicit subsidies, the Indian economy could not successively created enthusiasm in the private capital sector to invest in the organized economy. Private capitalists were not in favour of investing in such highly controlled market where factors of demand and supply has no control over the market which was rather controlled by state and its different institutions.

Industrial policy of Government greatly affected the Trade Policy. Under the closed economy of India, trade policy was highly regulated. The main thrust of Trade Policy at that time was self-sufficiency that called for the importance of import substitution industries In this scenario, industries produced only for domestic market. These producers raised the prices of the goods because of the protection from the import of international goods which were produced at low cost and could be sold to people at cheaper rates. All this affected their efficiency to produce goods that can compete in the international market.

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<sup>6</sup>. Mohan, Rakesh, “Small Scale Industry Policy in India: A Critical Evolution”, in Krueger, Anne O., (ed.), *Economic Policy Reforms and the Indian Economy* (New Delhi: Oxford University Press, 2002), p.217-218



This strategy according to policy makers would enable the Government to save foreign exchange by not importing foreign goods. Accordingly, tariff rates of import were kept abnormally high and only those goods were allowed to import which could not be produced indigenously. But the policy makers had not seen the other side of the coin which could have been proved to be more fruitful, i.e. the export side of the trade. They did not consider the ways of generating more foreign exchange through export of goods. This export emphasizing strategy would have, to some extent, solved the problem of employment by adopting the labour intensive technology. Here, it is important to look at the general foreign trade practice of India. Dietmar Rothermund observes that Soviet Union, played a role of stable market for the Indian export industries. He writes that,

“Export of Tobacco, Foot wears and Textiles, which India could not have exported elsewhere. India imported arms and oil from Soviet Union. The Balance of Trade with Soviet Union stood positive, that means the export of goods was higher than the import of goods”.<sup>7</sup>

Suresh D. Tendulkar and T.A. Bhawani note,

“with the rest of the world balance of trade of India was negative from 1950 to 1980 but the situation had improved in 1980s when the exports increased and reached to the level of 18.9% in U.S. Dollar terms in 1989-90”.<sup>8</sup>

C.P. Chandrasekhar and Jayati Ghosh observe that,

“this improved the balance of trade and foreign exchange which showed positive sign as during 1981-1990 rate of growth of export was higher than the rate of growth of import. In the export of goods, manufacture goods increased manifolds which was a good sign that changed the status of India as an Exporter of raw materials only”.<sup>9</sup>

Growth of any developing nation depends on the level of foreign investment in their domestic economy. Indian economy failed to attract the foreign investors due to its closed nature of economy. Foreign goods in order to enter in the Indian Economy had faced high tariff rates and various quantitative restrictions. According to Foreign Exchange Rate Act (FERA) only 40% of foreign shareholding was permitted in any industry. Foreign investment comes from international agencies, like International

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<sup>7</sup> Rothermund, Dietmar, *An Economic History of India*, (London and New York : Routledge, 1993), p. 160.

<sup>8</sup> Tendulkar, Suresh D and T.A. Bhawani, *Understanding Reforms*, (New Delhi: Oxford University Press, 2007), p.80.

<sup>9</sup> Chandrasekhar, C.P. and Jayati Ghosh, *The Market That Failed*, (New Delhi: Leftword Book, 2002), p.114.

Monetary Fund, World Bank, bilateral and multilateral agreements, Commercial Banks and remittances from the natives of India working abroad and rich NRIs. From 1985-86 the external aid stopped for Indian Government and with the prevailing political instability after the assassinations of Smt. Indira Gandhi and Mr. Rajiv Gandhi, investment by NRIs and commercial banks also stopped. NRIs started withdrawing their money from banks in India. This outflow was at its highest in 1991.

Suresh D. Tendulkar and T.A. Bhawani observe that,

“another item that raised the expenditure of Indian Government was subsidies on major necessities, like, food, fertilizers and also electricity. These subsidies were essentially a burden on the Government because these are usually given to poor people and poor farmers from where generally no revenue is generated. During 1980s both food and fertilizers subsidies raised continuously though the fertilizers subsidy increased at a much faster rate. Adding to this, there was interest subsidy also. “ In terms of GDP share, subsidies increased from less than 1.5% to more than 2% during 1981-1990”<sup>10</sup>.

It has been noted that the benefits of these subsidies were not reaching to those who need it the most. But the demands for subsidies had been increasing and the Government could not afford to ignore because of the rising role of regional parties at the Central and State level that has strong electoral base in rural India inhabited by farmers and poor people.

T.A. Bhawani and Suresh D. Tendulkar noted that, politically 1990 provided an opportunity to those who wanted to break the shackles of centralization and planning and socialism. The then Government of Congress headed by P.V. Narsimha Rao, though in minority yet, was able to get the budget with reforms of economy and structural adjustment passed in the Parliament. Opposition parties allowed the budget prepared by the reformer by conviction, Dr. Manmohan Singh, who was not a politician but an economist to get passed in the Parliament. Opposition parties sensing the problem of huge economic crisis, no party wanted to bear the burden of the charges of bank corrupt economy on their shoulders. There was also much agitation among people regarding high inflation which can be used as an electoral propaganda to raise the people against the Government. Another reason for the

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<sup>10</sup>. Tendulkar, Suresh D and T.A. Bhawani, *Understanding Reforms*, (New Delhi: Oxford University Press, 2007), p.75.

acceptance of economic reforms in the Indian Polity was the prevalence of coalition governments that increased the dominance of the regional parties and these parties were “ideologically neutral”<sup>11</sup>(economically). The parties asked for their share in the central resources. These parties were basically interested to safeguard their seats in Parliament. The economic reforms were adopted even though major political parties that were in opposition were against the liberalization ideologically, like, Bhartiya Janta Party supported the domestic liberalization but was against the complete liberalization for foreign markets and investment. The Communist party was totally against the liberalization in all its forms. Rapid Economic Growth was seen as the only way to solve the distributional conflicts regarding the government sources, that according to reformists could be achieved only when India become an active part of the world economy .

These all were contributing towards paving the road of liberalization slowly and gradually. There are other international causes also which shook the roots of the Indian planned economy and can be termed as immediate causes of the opening of Indian economy for the world market. Jos Mooij cited Kohli to show the inability of the democratic regime to undertake the much needed economic reforms. Kohli writes,

“it is indeed difficult for a democratic regime to undertake a major shift in development strategy ... It would ... be absurd to deny that powerful leaders like Indira Gandhi and Rajiv Gandhi can initiate some policy changes that they and their advisors deem necessary. There are, however, sharp limits on how far and how fast a liberalization can be implemented in a democracy”.<sup>12</sup>

While giving an answer to the question of how the reform policy can be adopted in the democratic country, like India, without much stronger opposition to it, he quoted Varshney and Jenkins. According to Varshney,

“Scholars generally assume that once reforms are part of the policy agenda, they become a central issue in political debates. This implies that there should be sufficient political support for them; otherwise, they are doomed to be stillborn. Varshney claims that this centrality of reforms need not be the case. In a situation where other issues dominate what he calls ‘mass politics, reformers can proceed quietly as long as they refrain from policies that can turn into mass political issues.

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<sup>11</sup>. Tendulkar, Suresh D and T.A. Bhawani, *Understanding Reforms*, (New Delhi: Oxford University Press, 2007), p.96

<sup>12</sup>. Mooij, Jos, “Introduction”, in Mooij, Jos,(ed.), *The Politics of Economic Reforms in India* (New Delhi: Sage Publications, 2005), p.26

Mass politics in India centres around identity issues. Over the last decade, Hindu nationalism has been a rising force. Following the 1991 elections, the Hindu nationalist BJP became the second largest political party in the country after Congress (I). It had played a key role in the movement for the demolition of the Babri mosque in Ayodhya and in the Hindu-Muslim riots that subsequently broke out in several parts of the country. Along with the issue of job reservation for lower castes, this led to mass politics centring around social and communal identities. The main political parties began to realign accordingly. In Varshney's words, 'coalitions were increasingly formed against Hindu nationalists, not against the Congress. To begin with, the Left-the Communists and the lower-caste Janta Dal and its allies – disliked the reforms, but they disliked Hindu nationalism even more'. Subsequent budget proposals could get passed by Parliament – not because the opposition parties were in favour, but because Hind- Muslim relations and caste animosities had become the prime determinants of political coalitions.

The second explanation is particularly elaborated by Jenkins (1999). According to him, the reforms were implemented through underhand and often non-transparent tactics, made possible by the way in which democratic institutions work in practice. Indian political, Jenkins argues, could introduce fairly radical policy changes because they were confident that the reforms would not fundamentally alter either the political arena or their privileged position. Interest groups would continue to remain malleable, and new coalition would emerge. 'Politics as usual' would thus not end, and the reforms could even provide new opportunities for earning illegal incomes, strengthening support bases, etc. Two types of institutions are particularly highlighted by Jenkins: namely, federal and political party institutions. The effect of the federal system has been the diffusion of opposition, while political parties function as networks of influence that can be used by politicians when negotiating policies and accommodating interests"<sup>13</sup>

The Iraq and Kuwait war of 1990s (gulf war) that resulted in Iraq occupying the Kuwait and later under the pressure from international community releasing it from its control had dual effect on the Indian economy. On the one hand, it affected the balance of trade scenario as the price of oil imports increased, on the other hand that war compelled the Indian workers to evacuate the Kuwait and leaving their jobs to come back. This led to the loss of remittances that provided foreign exchange.

Another shock was the failure of highly centralized communist nation, USSR. Disintegration of USSR in 1991 meant disintegration of USSR market for the export from Indian industries. It also shattered the dream of socialist world that emphasized the vital role to be played by the centralized planning system. With this disintegration, India had to look for other options, i.e., to find new markets for its export and import markets. But the world economy was following the policy of liberalization and any

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<sup>13</sup>. Mooij, Jos, "Introduction", in Mooij, Jos,(ed.), *The Politics of Economic Reforms in India* (New Delhi: Sage Publications, 2005), p.28-29

nation wanting to have good market relations with the developed nations have to first liberalize its economy completely. As noted earlier also Indian trade with other nations except Russia was negative. So as to attract foreign investment and technology, India had no other option but to liberate its economy from the shackles of centralism and nationalism. India had an example of China which with its communist government have spectacular success with the socialist market economy since 1978 started raising doubts about the efficiency of the closed nationalized economy.

In order to bring back the confidence of economy ,minority governments, led by then Mr. V.P. Singh in 1989 and later by Mr. Chandrashekhar turned once again to International Monetary Fund agency for loans but the loan also could not turned out to be fruitful for India. Chandra Shekhar Government had withdrawn US\$1.8 Billion from the International Monetary Fund under the Contingent Compensatory Finance Facility (CCFF) in 1991. After the borrowing, Indian Government was to fulfill the criteria set up by the IMF, in order to receive another share of loan under the CCFF, i.e. adoption of measures to improve the balance of payments, lower the inflation rate and also the fiscal deficit.

### **Debate on Economic Reforms:**

The issue of adopting neo liberal reforms in India , generated a debate on what effect will it have on the economy of India and also on the major problems such as poverty and employment. Some sees it as the vanguard of week and crippling Indian economy and sees it cautiously as not suitable for Indian economy.

Terence J. Byres quoted Jagadish Bhagwati and T.N. Srinivasan, who, termed adoption of liberalization policy, “as a successful transition from an essentially inward looking posture to an outward oriented economy, exploiting foreign trade and investment opportunities fully. It provides a new policy frame work which will promote greater efficiency, growth and therewith a surer and deeper attack on poverty. Economic dynamism, growth and development will follow inevitably, if the reforms are perused resolutely, and these will be sufficient in themselves and without major state intervention to reduce significantly, if not eliminate, poverty. They both argues that the ideas being implemented are extraneous does not reflect the reality either. These reforms in our and indeed in many other developing countries policies were being advocated from the early 1960s. It is ironic, in fact that these ideas rejected at the time by our authorities and many of our economists as well, have now been adopted worldwide but have come to be adopted by us only at the end of this revolutionary change. The claim that the ideas are foreign and hence ill suited to us is therefore incorrect. In any case, it is surely odd and counter productive to accept or reject ideas based on where they are coming from”.<sup>14</sup>

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<sup>14</sup>. Byres, Terence J. , (ed.), *The State Development Planning & Liberalization in India*, (Delhi: Oxford University Press, 1998), p.3&8.

Against this view T.J. Byres argued that, “Neo liberalism found its intellectual formation and its major practitioners in the United States ... (liberalization) presented a virulent critic of planning, which was represented as simply the institutionalized means whereby the state pursued its predation, extended and reproduced its massive inefficiencies and gave rise to growing and deeply entrenched rent seeking. It advocated as essential to economic health and economic development. It was a decision taken ‘under pressure’ by the government of India”.<sup>15</sup>

Anne O Krueger is of the opinion that, “Many of India’s current economic ills would greatly alleviated by a sustained 7% growth rate. Such a rate would enable more people to achieve incomes above the poverty lines”. She further argued that “A higher growth rate again with appropriate incentives, would also likely to result in a higher saving rates, thus, enabling, among other things, more investment in infrastructure, clearly a bottleneck”<sup>16</sup> in the growth.

This bottleneck is also been noticed by Montek S. Ahluwalia,

“-the quality of infrastructure is widely regarded as an essential determinant of growth in the state. Good infrastructure not only increases the productivity of existing resources going into production and therefore helps growth, but also helps to attract more investments which can be expected to increase the growth further”.<sup>17</sup>

Anne O Krueger writes, “Some of the prospective bottlenecks in infrastructure can be attributed to the states’ allocation of expenditures almost entirely to wages and salaries, with few resources to undertake investments”.<sup>18</sup>

She further observed that the investment in education, health care services and infrastructure can be made only if the fiscal deficit is closed and also on the availability of new revenue generating resources. She further argued for the reduction in expenditure on subsidies, which according to her, ‘go to the better of sections of society rather than to the poor’. She also felt the need of awareness among the Indian masses regarding the benefits of liberalization of Indian economy and for this she asked for the greater participation from politicians and policy makers to explain all the logic behind adopting the policy of liberalization.

Anne O Krueger while accepting the need of tax reforms, said “If the tax reforms were adopted and Government revenues were more elastic with respect to income

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<sup>15</sup> Byres, Terence J. , (ed.), *The State Development Planning & Liberalization in India*, (Delhi: Oxford University Press, 1998), p.1

<sup>16</sup> Krueger, Anne O., “Priorities for Further Reforms”, in Krueger, Anne O., (ed.), *Economic Policy Reforms and the Indian Economy* (New Delhi: Oxford University Press, 2002), p.356

<sup>17</sup> Ahluwalia, Montek S., “State Level Performance Under Economic Reforms”, in Krueger, Anne O., (ed.), *Economic Policy Reforms and the Indian Economy* (New Delhi: Oxford University Press, 2002), p.110.

<sup>18</sup> Krueger, Anne O., “Priorities for Further Reforms”, in Krueger, Anne O., (ed.), *Economic Policy Reforms and the Indian Economy* (New Delhi: Oxford University Press, 2002), p.357

growth, the fiscal situation could itself be eased by accelerated growth ... At present the fiscal deficit is financed in considerable part through the forced acquisition of Government obligation by the banks. While that may have the effect of reducing the inflationary pressures emanating from the fiscal deficit, it also has the effect of keeping real interest rates higher than they would otherwise be. If the fiscal deficit were greatly reduced, the resulting drop in real interest rates would enable greater private investment and hence stimulate economic growth".<sup>19</sup>

It has been argued by the supporters of liberalization that Indian domestic industries, especially the public sector enterprises and small scale industries has been assisted supported and protected by Indian Government and the time has now arrived that these industries must face stiff international competition.

Arguing in favour of privatising the public sector enterprises, Anne O Krueger, writes, "for large and visible private enterprises, the Government of India has in the past acquired sick firms in order to maintain employment, the result has been that an increasing fraction of public sector enterprises has been loss making. Achieving privatization in ways that permit these firms to become more efficient and closing down enterprises in which there is no hope of profitability would do much both, directly and indirectly, to enhance the efficiency of Indian economy and to improve growth prospects. Directly the elimination of losses of unprofitable public sector enterprises would raise the average productivity of Indian enterprises, while simultaneously freeing resources for more productive uses and improving the fiscal situation. Indirectly, incentive effect for other firms could also contribute to increase the output and productivity, as Managers perceived that they had more to lose with poor performance of their enterprises".<sup>20</sup>

Against the policy of reservation, Anne O Krueger, notes, " The policy of reservation of certain industries to the small scale sector has almost certainly had major deleterious effects on the Indian economy. It has not promoted the small scale sector, but has instead given monopoly positions to large scale firms that were already engaged in these activities before regulation was enacted. It has certainly not promoted employment. It has certainly deterred exports, which would likely to have originated in labour intensive industries, precisely the ones that have been reserved for small scale firms. De-reservation of small scale industries would certainly improve the functioning of not only the labour market but also the entrepreneurial market. Small firms with good Managers and growth potential would be encouraged to expand".<sup>21</sup>

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<sup>19</sup>. Krueger, Anne O., "Priorities for Further Reforms", in Krueger, Anne O., (ed.), *Economic Policy Reforms and the Indian Economy* (New Delhi: Oxford University Press, 2002), p.356-357

<sup>20</sup>. Ibid, p.359

<sup>21</sup>. Ibid, p. 360

While forwarding the case for closing down of non-profitable sick industries, she did not take up the case of the workers who would lose their jobs. Though she believed that the threat of closures will give a much needed push to Manager to perform better, so the problem lies with the management and not with the so called public sector enterprises entirely. The need should be to reform the management. But she is correct in emphasizing the need to raise the revenues through taxes and also to cut short the subsidies provided in the name of benefiting the poor people but never reached to them. Here also, she must have noticed that subsidies are very sensitive issues, though accepted by everyone that it is not reaching the poor people in a way it should be, but no political party in power may take the burden of agitation of people if they choose to drop them.

Montek S. Ahluwalia supported a central tenant of liberalization, the notion of trickle down mechanism that will ensure that growth brings a reduction of poverty and therefore , that no action of the state is necessary to ensure poverty alleviation. While putting up a case for liberalization and its success in increasing gross domestic product, he argued that,

“India’s past experience at the national level shows that as long as GDP growth was modest, that is between 3.5% upto the late 1970s, there was no significant reduction in poverty ..... It was only after GDP growth accelerated in the 1980s that a trend reduction in poverty began to be noticed. The percentage of the population below the poverty line in the fourteen major states have declined steadily from 43.8% in 1983 to 26.4% in 1999 to 2000. The ten years period from 1983-84 to 1993-94 saw a relatively modest reduction of about 7.5 percentage points in the percentage of population below the poverty line. That is how he gave support to his much supported trickle down effect of growth that can be achieved in the era of liberalization only. While admitting that the liberalization policy can lead to regional inequality he argued by saying that “the reforms generate potential gains for each state and while some states may benefit more than others, the reforms do not hurt any state”.<sup>22</sup>

Montek S. Ahluwalia, notes that,

This inequality will be “because of differences in states specific characteristics and this could lead to a declaration in some states”. To over come this problem, he suggested that “the better positioned states must therefore be allowed and even encouraged to perform upto their potential and the lessons learned from their success should spread elsewhere. However, the states that may not have benefited from the

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<sup>22</sup>. Ahluwalia, Montek S., “State Level Performance Under Economic Reforms”, in Krueger, Anne O., (ed.), *Economic Policy Reforms and the Indian Economy* (New Delhi: Oxford University Press, 2002), p.101



reforms and may even have suffered because of a reallocation of investment sources towards other better endowed states, must be assisted by addressing the specific deficiencies that are holding them back”.<sup>23</sup>

T.N. Srinivasan while supporting the process of disinvestment by the Government writes that “the sale to private investors of the Government equity in public sector enterprises is relevant for at least two reasons. First, with disinvestment, only a part of the surpluses and deficits of PSEs will enter the over all deficit of the non financial public sector. Second, the proceeds from the sale of Government equity can be used to reduce the fiscal deficit”. Though he observed very well that more rapid growth that might be brought about by the shift of ownership to private hand will affect Government revenue.” “It is often suggested that since the sale of public equity in a PSE is in fact a sale of Government asset, the proceeds from such a sale should be used to reduce the Government’s liabilities by the same amount through reduction of public debt. Likewise, it is further argued that such proceeds should not be used to reduce current fiscal deficit. Logically, however, if the Government efficiently uses its resources, it should not make any difference whether a rupee of proceeds is used to reduced the stock of debt or deficit.” He also emphasized on the need of reducing the subsidies that raised the expenditure of the Government but he also notes “the issue of explicit and implicit subsidies is not simply one of raising or lowering this price or that price at the margin, but a much deeper one of domestic political economy. Whatever the true ultimate incidence of any of the subsidies and the factors that brought them about, vested interests have formed in ensuring that they are not touched”.<sup>24</sup>

Contrary to all these above mentioned enthusiasm among the supporters of Neo liberal reforms, Jayati Ghosh and C.P. Chandrasekhar argue that,

“liberalization of Indian economy leads to greater integration with the world markets and external vulnerability”.<sup>25</sup>

They further note that ‘countries with a potentially large domestic market, domestic capital must be provided with both time and space to achieve the level of competitiveness that is developing countries that the attenuation of the Nation State challenges there already low standards of living’.<sup>26</sup>

It has been noted that, “There is a much agitation against the measure of privatization adopted under the policy of liberalization. An important reason for the internal and external opposition to the Government’s privatization programme was that the proceeds of disinvestment and privatization would disappear into a black-hole called the Consolidate Fund of India. The money earned by selling assets that belong to the

<sup>23</sup>. Ahluwalia, Montek S., “State Level Performance Under Economic Reforms”, in Krueger, Anne O., (ed.), *Economic Policy Reforms and the Indian Economy* (New Delhi: Oxford University Press, 2002), p.102-103

<sup>24</sup>. Srinivasan, T.N., “India’s Fiscal Situation: Is Crisis Ahead?”, in Krueger, Anne O., (ed.), *Economic Policy Reforms and the Indian Economy* (New Delhi: Oxford University Press, 2002), p.64-66

<sup>25</sup>. Chandrasekhar, C.P. and Jayati Ghosh, *The Market That Failed*, (New Delhi: Leftword Book, 2002), p.165

<sup>26</sup>. Ibid, p. 168-172



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people of the country did not go into retiring public debt. Nor did it go for education, health care and rural development or any laudable purpose. Instead, the funds raised by privatising PSUs went towards bridging the budget deficit or subsidizing the profligacy of the representatives of the people (politicians) and the servants of the people (bureaucrats). The second reason is that the emphasis is entirely been on privatising the 130 profit making central PSUs and not on tackling problems of the 106 loss making PSUs. Profit making PSUs have been privatized first on the plea that private buyers would not have been interested in picking up loss making units. The Government's policy of privatizing the best managed PSUs was actually aggravating the situation of draining the country's exchequer<sup>27</sup>.

In the midst of all these different stands, the then Indian government took a step to adopt liberalization policy with its open door policy .

With the onset of economic reform policies, Indian Government tried to achieve two major aims simultaneously, namely, structural adjustment and stabilization of the Indian economy. A New Economic Policy was announced on July 4, 1991, and few days later on 24<sup>th</sup> July, 1991 New Industrial Policy was announced by the then Government. While presenting the budget consisted of reform policies for different sectors of economy, Dr. Manmohan Singh, in his speech on 24<sup>th</sup> July, 1991, he made a strong point stating that,

“we need to expand the scope and area for the operation of market forces..... systematic reforms in industrial, trade, investment, capital market and public sector policies”<sup>28</sup>.

The new economic policy comprises the various measures and changes adopted in the name of reforms. It aimed at creating a more competitive environment to improve the productivity and efficiency of the Indian economic system by removing the barriers on the entry and growth of industries. In 1992 budget speech,

“he also (re) defined a vision of a self reliant economy as one which can meet all its imports requirement through export without undue dependence on artificial external props such as foreign aid”<sup>29</sup>.

New Industrial policy emphasizes the creation of competitive environment in the domestic environment. Private sector and public sector will compete with each other

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<sup>27</sup>. Bibek Debroy & Rahul Mukherji, (eds.), *India The Political Economy of Reforms*, (New Delhi: Bookwell, 2004), p. 41-42

<sup>28</sup>. Tendulkar, Suresh D and T.A. Bhawani, *Understanding Reforms*, (New Delhi: Oxford University Press, 2007), p.88

<sup>29</sup>. Ibid

after de-reserving the production areas of public sector. The public sectors still given the vital role to be played in Indian economy. New economic policy against the basic conception of liberalization, that is, rolling back of state did not call for any change in the role and power of state. But the forces of the market, i.e. demand and supply will be given more power to shape the market. Eighth Five Year Plan envisaged the “indicative role of the planning”. Inflow of foreign investment, is considered to be essential and as per the demand of the time because capital and technology both are moving across the borders benefiting various developing nations. The capital with the Indian banks was very limited and inadequate. Reforms of financial systems emphasized the need of providing greater autonomy to the banks to raise more capital. There are various other non economy elements in the new economic policy that aimed to reduce the poverty. First, it has been noticed by the policy makers that one way of reducing the poverty is to allocate more resources to agriculture sector. Second, need to increase the number of employment generating schemes, such as, employment guarantee schemes and credit-related integrated Rural Development Programmes. Third, re-emphasization on the Public Distribution System benefiting the real poor segment of the population and should not result in the black marketing of essential commodities. Fourth, education and health also seen as important areas, if given more resources and better management can lead to the reduction of the poverty in the long run.

Economic reforms consisted of two measures, namely, stabilization measures and structural measures. Stabilization measures included devaluation of rupee, reduction in public expenditures, reduction of fiscal deficit and removal of restriction on the inflow of foreign capital. These would provide the stability in the micro economy.

According to Terence J. Byres, the stabilization policy included in the adopted economic reforms, “emphasized the management of the demand”.<sup>30</sup>

Structural adjustment measures covered a long series of reforms in trade policy, industrial policy, the public sector policy, financial sector policy, tax policy and measures to increase the foreign exchange. This would help the Indian economy to

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<sup>30</sup>. Byres, Terence J. , (ed.), *The State Development Planning & Liberalization in India*, (Delhi: Oxford University Press, 1998), p.2

integrate with world economy and the industrial sector will be able to manufacture goods that would compete in the international market. Structural adjustment measures so designed and adopted, aimed at freeing the supply side from the intervention of state. These two measures in the Indian context were followed and practiced simultaneously. Indian Government started with the stabilization of Indian economy soon after the crisis to restore the confidence of the Indian economy system.

Reform policies adopted under Structural Adjustment measures and stabilization measures are as follows:

1. **Industrial Policy**:- Rapid agricultural and industrial development, rapid expansion of opportunities for gainful employment, reduction of social and economic disparities, removal of poverty and attainment of self-reliance, all are the goals and objectives set out by the Pandit Jawahar Lal Nehru on the eve of independence. Industrial policy adopted by Indian Government must move towards achieving the above said goals and objectives.

K.D. Saksena provides the evolution of industrial policy from 1948 till the initiation of economic reforms. The author writes,

“Industrial policy resolution of 1948 emphasized the importance of gradual increase in production with the equitable distribution. The state was given the direct responsibility for industrial development with the passing of 1956 industrial policy resolution. Industrial policy resolution of 1977 gave importance to the decentralization of the industries and also the role of small scale and cottage industries. In 1980s, the focus was shifted to promote competition in the domestic market, technological up gradation and modernization. During 1985-86 thrust was on opening the domestic market to increase the competition among domestic producers and getting Indian industries ready to face the international competition through technological and managerial modernization of industries. With all these inputs, Indian industries grew by average annual growth rate of 8.5% in the Seventh Plan period. Industrial policy of 1991 once again reinvented its measures to achieve modern, democratic, socialist prosperous and forward looking India”<sup>31</sup>

This could be achieved only if India can play an important and active role in the world economy. Much emphasis is now placed on earning foreign exchange to pay the Import Bills along with the measures to achieve the most cherished ideal of

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<sup>31</sup>. Saksena, K.D., *Economic Reforms the Indian Experience*, (New Delhi: Shipra Publications, 2005), p. Appendix.

self-sufficiency. Need of research and development is felt to develop the indigenous technology and spreading the industries to backward and remote areas of India so that the benefits of industrialization could be reached to every Indian. The role of public sector changed from dominant to 'rightful'. Earlier, Government used to intervene in the economy through capital investment in the key public sector areas but now it control the market if needed, through banks and financial institutions. Welfare of workers considered as important and also they felt the need of their participation in the management of industrial work. Intensive training, skill development and up gradation programmes will be launched. The major objectives of the new industrial policy package is to build and strengthen the Indian economy on the gains that were made earlier, i.e. in 1980s, correct the mistakes and weaknesses of economy, sustainable growth providing employment to the ever increasing work force and lastly but most importantly achieve international competitiveness.

The new policy is expected to remove all the bottlenecks and obstacles in the way of above stated aims. To start with, the Government of India announced the policy of delicensing and removing the process of controlled entry of big private business houses and foreign investments. Out of the 17 reserved areas of production for public sector, only four are now under compulsory licencing, rest have been delicensed.

A.B. Singh and Anurag Singh write,

“Government gave the option to small scale enterprises to offer up to 24% of their shareholdings to large scale and other industrial undertakings in order to avail their capital and technology. The Government set up National Renewal Fund with a corpus of Rs. 200 Crores to meet the costs of technological change and modernization industry and safeguards the interest of workers engaged in sick and nonviable enterprises. The Government has given automatic approval for technology imports for priority sector for a royalty payment upto 5% of domestic sales and 8% of export sales or lumpsum payments of Rs. One Crore....The Government has expanded the list of industries eligible for foreign direct investment under the automatic approval system by Reserve Bank of India. NRIs have been permitted 100% equity investment in high priority industries with full benefits of capital repatriation”.<sup>32</sup>

Two new policies are also adopted, namely, “disinvestment” and “privatization” and followed by the Government. These policies largely affected the public sector

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<sup>32</sup>. Singh, A.B. and Anurag Singh, *Public Sector Reforms in India a Case Study of ONGC*,(A.P.H. Publish Corporation, 2004), p.20

undertakings, owned, controlled and managed by the Government. It was stated in the industrial policy statement of 1991, that the Government would divest part of its holding in the selected public sector enterprises. It has been decided to reduce Government equity in non-strategic public sector undertaking to 26% or even lower. Support given to sick undertakings would be gradually taken back. Board for Industrial and Financial Reconstruction were given the power to take into account sick public sector undertakings which were not under their control earlier.

In this regard K.D. Saksena writes, "Till the end of October, 2002, Board for Industrial and Financial Reconstruction had received 273 references from sick, central and state public sector undertakings, rehabilitation schemes had been sanctioned for 42 public sector undertakings and 55 public sector undertakings had been recommended for winding up".<sup>33</sup>

A new system of signing of Memorandum of Understanding (MoU) on performance contracts between public sector undertakings and the concerned authorities to make the public sector undertakings work based on achieving targets within the limited time frame work. . To facilitate a fuller discussion on performance, the Memorandum of Understanding would be placed in Parliament. Public sector undertakings were given certain amount of autonomy and making them accountable and answerable for their work.

Adopted privatization policy involved sale of Government equity or outright strategic sale of the unit to private bidder. In order to raise resources and encourage wider public participation ,a part of the Government shareholdings in the public sector would be offered to mutual funds, financial institutions, general public and workers Revenue collected through disinvestment and privatization, as suggested by Government, would be used for reducing and repaying of public debt and meeting the expenditures incurred in social sector and also to restructure viable public sector enterprises.

2. **FINANCIAL SECTOR REFORMS**:- Financial Sector Reforms were aimed to bring the financial sector out from the shadow of nationalization and control of Central Government. Prior to reforms, banks were made to hold a percentage of their

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<sup>33</sup>. K.D. Saksena, *Economic Reforms The Indian Experience*, (New Delhi:Shipra Publications, 2005), p. 64

deposits in Government securities. They were also made to give loans to priority sector set up by the Government, generally at very low interest rates to provide the target segment of population, the implicit subsidies by providing them financial assistance. Private, domestic and foreign firms and banks were strictly checked but this entire scenario changed after the adaptation of Reforms Policy. Nationalized Banks, such as State Bank of India were “allowed to sell equity to private sector”.<sup>34</sup> Banking sector now open for both domestic Private Sector and Foreign Investment. Foreign banks are subjected to Rules and Regulations are same as that of domestic banks. Banks are allowed to diversify their economic activities “the office of the Controller of Capital Issue was abolished. The Securities and Exchange Board of India, which was set up in 1992 to regulate the market transactions, had by the end of the decade relaxed many of its initial norms and restrictions”.<sup>35</sup>

A.B. Singh and Anurag Singh write,

“The Government provided budgetary support of Rs.5700 Crores in 1993-94 and again of Rs. 5600 Crores in 1994-95 to less strong public sector banks to strengthen bank management and improve efficiency. The Government gave freedom to open new branches and upgrade extension counters and close non viable urban branches. Special Recovery Tribunal was set up under the Recovery of Debts Due to Banks and Financial Institutions Act, 1993 to facilitate quicker recoveries of loan arrears”.<sup>36</sup>

Narsimha Committee in 1991 suggested reforms for flexibility, diversification, regulation of domestic interest rates to raise the higher returns from investment. Interest rates remained high with the investment rates very low after adopting the liberalization policies. Interest rates as based on the interest on Government Securities are knowingly kept high in order to attract foreign investors and domestic investors in the market. But this had the dual effect on the economy. First, the interest rates on loans become high and secondly the amount for lending to private sector reduced further. Biswajit Chatterjee writes,

“The R.N. Malhotra Committee recommended the permission for private domestic sector and foreign financial institutions to enter the Insurance Sector. Now, Foreign Insurance Companies can enter through joint ventures with the Indian Companies”.<sup>37</sup>

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<sup>34</sup> C.P. Chandrasekhar, Jayati Ghosh, *The Market That Failed*, (New Delhi: Leftword Book, 2002), p.100

<sup>35</sup> Ibid

<sup>36</sup> A.B. Singh,, Anurag Singh, *Public Sector Reforms in India a Case Study of ONGC*,(New Delhi:A.P.H. Publish Corporation, 2004), p. 18

<sup>37</sup> Biswajit Chatterjee , ed. *Economic Liberlization in India*,(New Delhi: Allied Publishers Lintied,1998),p. 77

After being permitted to diversify their economic activities, banks especially the private banks indulged themselves in the highly 'volatile' capital generating market, i.e. stock market. Stock market of India before liberalization was a dormant one where investments were made for very long terms and capital was earned on the basis of dividends. Earlier, very few factors were capable of disturbing the balance of Stock Market. With the coming of foreign institutional investors, Indian Stock Market changed from dormant to highly active market. Now the investments are made for short term in order to gain profit and then leave the market. International factors affecting the foreign investors are now capable to affect the Indian Stock Market.

3. **FISCAL POLICY REFORMS**: - Fiscal deficit was increasing at a very faster rate; as a percentage of GDP it stood at "4.1% in 1975-76 went up to 7.5% in 1984-85 and further increased to 8.3% in 1990-91". The first step to balance the economy is to stop the increasing rate of the fiscal deficit and one way of doing that is to cut short the expenditure. Expenditures of Indian Government that can be cut short are considered to be the subsidies that are provided in the name of supporting the poor population of India but these subsidies as noted by policy makers not necessarily reached to the needy people. The other way to reduce the deficit is to earn revenue through taxes. For this purpose, Government appointed a committee under the leadership of Raja Chelliah. Tax reforms adopted are very similar to those proposed by World Bank, like broad based VAT, elimination of export taxes, reduction in tariffs, personal income tax should be levied on each according to one's ability. Ability should be measured according to both the income level and the consumption level. Tax reform includes tax on services which was earlier not considered. Value Added Tax (VAT) is introduced for making tax base uniform and the revenue collected through this should be divided amongst State and Centre. While discussing tax reforms, it has been noticed that state should be given more autonomy to levy taxes in order to meet their expenditure levels. Tax reforms aim to make the tax system based on equity, economic efficiency and administrative convenience and also transparency (Biswajit Chatterjee)

K.D. Saksena writes, "Based on the recommendations of the 11<sup>th</sup> Finance Commission, Government of India has drawn up a monitor able fiscal reforms programme for all the states called State Fiscal Reform Facility (2000-01 to 2004-05).



Eighteen states are reported to have drawn up Medium Term Fiscal Reforms Programme (MTFRP) for reducing the fiscal deficit to sustainable level by 2005, eliminating revenue deficit altogether by 2005 and also bringing down debt/ GDP ratio to sustainable levels. The MTFRP involves fiscal consolidation, public sector enterprise reforms, power sector reforms and fiscal transparency. Fiscal Responsibility and Budget Management Bill has now been enacted and become a law, which envisages total elimination of Central Government deficit by March 2008”.<sup>38</sup>

4. **TRADE POLICY REFORMS:** - Main thrust of the Trade Policy Reforms is to increase the export for which the Government took measures of de-regulation, de-valuation, de-licencing and simplification and transparency of procedure.

According to A.B. Singh and Anurag Singh, the Government under economic reforms adopted in the trade policy adopted various measures. They write,

“The Government made an adjustment of 18% in the exchange rate in the value of rupee to stimulate the exports, narrow the trade gaps, prevent the flight of capital and minimize the reliance of India on foreign trade”.<sup>39</sup>

The main aim of the new trade policy had been the reduction and unification of the tariff rates and removal of quota restrictions. From more than 300% tariff rate fell to less than 40% by 2001. New trade policy allowed concessions on tariff rates of imports on capital goods to be used by export industries.

In this regard, Biswajit Chatterjee writes, “The large number of import categories which require the issue of separate import entitlements called EXIM scrips were eliminated and were made freely importable subject to the availability constraints. Instead of issuing EXIM scrips for each transaction, the system was made simplified and operable through Forex dealers and/or banks, covering a gamut of current account transactions including workers remittances. It incorporated a self-balancing mechanism whereby total imports were automatically regulated by the availability of foreign exchange and they were simply one negative list consisting of banned, restricted and canalized items and all other items not included in the list were made freely importable at the prevailing market exchange rate”.<sup>40</sup>

Imports of capital goods and intermediate goods were placed in the open general licence category that does not require licence but have to pay specified tariffs. By 1999 imports of consumer goods were also liberalized which the earlier Governments hesitated to adopt.

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<sup>38</sup>. K.D. Saksena, *Economic Reforms The Indian Experience*, (New Delhi: Shipra Publications, 2005) p.279

<sup>39</sup>. A.B. Singh, Anurag Singh, *Public Sector Reforms in India a Case Study of ONGC*, (New Delhi: A.P.H. Publish Corporation, 2004), p. 15

<sup>40</sup>. Biswajit Chatterjee, ed. *Economic Liberalization in India*, (New Delhi: Allied Publishers Limited, 1998), p. 24

5. **FOREIGN INVESTMENT POLICY:-** Foreign investment is welcomed by Indian Government as the foreign investment bring advantages of technology transfer, marketing expertise, modern managerial techniques and possibilities of increasing Indian exports. Promotion of exports needed new markets, which is possible through intensive and highly professional marketing activities. As this expertise is still not fully developed in India, foreign trading companies will be encouraged to assist Indian exports sector. Acquisition of technological capability receives priority. Indian Companies will be free to negotiate the terms of technology transfer with their foreign counterparts as per their judgments based on purely commercial basis. This will give a boost to Indian industries to develop competence and efficiency in order to absorb the foreign technology. It will also pave the way for more investment in the Research and Development Programmes in India. There will be no requirement of prior clearance for hiring foreign technicians and foreign testing of indigenously developed technologies. Automatic permission will be given for foreign technology agreements in high priority industries in lumpsum payment of Rs. One Crore, 5% royalty on domestic sales and total payment of 8% of sales over a 10 years period from the date of agreement or 7 years from commencement of production.

**IMPACT:**

Economic reforms started with the aim of achieving economic development with higher economic growth, increase in the job opportunities for labour force, reducing the level of poverty, equitable distribution of resources to ensure social justice and equality and also to reduce the regional disparities among the states.

Stabilization measures did help in stabilizing the Indian economy with controlling of fiscal deficit and inflation, it regain the confidence of foreign investors and came out of the serious balance of payment crisis. All this was achieved with the growth in the Gross Domestic Product. But if we look at the structural adjustment measures in Trade Policies, Industrial Policies and Tax Policies, not much positive is achieved.

K.D. Saksena writing on the impact of economic reforms provides the following data from different sectors of the economy to highlight the changes brought by the

economic reforms:

The average annual growth rate of real GDP during reform(1994-95 to 2000-01) was 6.25% as compared to the 5.67% during the pre reform period (1984-85 to 1990-91). Per Capita real GDP reached to 4.07 per cent during reform period as against 3.68 percent during pre-reforms. The net capital stock responsible for country's future growth, fall down to 12.38 percent when compared to 13.99 percent in the pre-reform period. Level of consumption increased in the reform period. Private Final Consumption Expenditure reached to 5.38 percent. Public Sector's share in the country's net capital stock still very high at 42.14% and its share in gross capital formation stood at 31.44% but its share in gross domestic savings is very low at 1.75% and GDP share stood at 25.89% in the reformed period when compared to the pre reform period not much changed except the increasing rate of decline in the savings which stood at 11.32 percent. Overall productivity of capital measured as Incremental Capital Output Ratio also declined from 4.56percent in pre reform period to 4.74 in 1992-93 to 1996-97 and recently also 4.74 in 2001-2002. Annual Average Growth of all crops which stood at 3.51 percent in 1984-85 to 1990-91 declined to 1.04 percent during 1994-95 to 2001-01. Severity of decline was much higher in the crops of non-food grains production from 5.20 in pre reform period to 0.94 percent in the reform period. Production of food grains also saw decline from 2.6 percent to 1.16 percent in the reform period. Industrial Production also faced the decline. Growth in basic Goods industries fell from 7.84% to 5.86% in the reform period. . Growth in infrastructure industries which stood at 7.19 percent in the pre reform period to 6.86% percent in the reform period per capita availability of cereals, cloth and electricity declined. Per capita availability of Cereals and Pulses recorded a negative Annual Average Growth rate of 2.74% , cloth at 2.9 percent and electricity at 6.01 percent as against 2.12 percent of Cereals and Pulses, Cloth 6.19 percent and electricity at 10.54 percent. But the availability of edible oil rose from 0.34 percent in the pre reform period to 6.01 percent in the reform period.

Lifting the quantitative restrictions and lowering the tariff rates on imports have dual effect on Indian industries. Though it provided the Indian industries much needed intermediary goods and technology for production, but it thrown open the Indian market to be conquered by cheap foreign goods. Indian producers are finding it

difficult to cope with the competition from low rate goods, like China made goods from toys to mobiles with its cheap rates and good quality is somehow preferred by consumers. Thus, the consumers are enjoying the benefits from this availability of various options but policy makers should not forget that population cannot be divided strictly into groups of consumers and producers. Every consumer is a producer while doing his or her job. If these producers are being led off from industries in order to cut the costs or also these industries are finding it difficult to attract the buyers, then the workers would not have the disposable income in their hands to purchase goods.

Openness of Indian economy is shown by the increase in the export as well as import as percent of GDP in the reform period. Merchandise exports rose from 4.94 percent to 8.81 percent and merchandise imports rose from 7.90 percent to 12.24 percent. But if we look at the annual average growth rate of exports marginally declined from 17.68 percent in pre reform period to 17.20 percent in the reform period. Average growth of export rise to 9.8% percent during 1992-93 to 1998-99 as compared to its growth rate at 8.2 per cent during 1980-81 to 1990-91. There is increase in the imports as well as and this increase is more than the average increase in the post reform exports. During pre reform period, the average import growth raised to 12.0 percent as compared to single digit 7.8 percent from pre reform period to post reform period. It has been observed that the liberalization of the trade policies of India has led to the increase in imports, against the aim of increasing the export. Our industries that are trading outside also have to face the policies of protectionism and other implicit – explicit subsidies given by the industrialized nations to their industries in order to protect them. But Indian policy makers are not giving much attention to this side of international trade policy. Their subsidies are provided to industries that help in reducing the costs but in India subsidies are being cut down in order to cut down the Government expenditure.

No concrete steps are yet taken to develop new technologies or indigenize the imported technology. There has been no increase in the expenditure on the research and development by the Government of India or private investors. Rather the demand for imported technologies has been increasing.

The annual average of Foreign Investment increased from US\$ 299.80 million in the pre reform period to US\$ 4837.14 million in the reform period. From US\$ 586

Millions in 1983-84 Foreign Direct Investments became more than double to US\$ 1,314 Million in 1994-95. During 1995-96 Foreign Direct Investments were US\$ 2,133 Million". Yet one should not forget that total Foreign Direct Investment accounted for less than 1% when compared to Foreign Direct Investment in the whole world. Annual average of Net Commercial Borrowing increased from US\$ 1535.57 million in the pre reforms to US\$2548.29 million in the reform period. There is decline in the External Assistance. Net External Assistance which stood at US\$ 1509.57 Million in the pre reform period, fell to US\$ 939 Million in the reform period. The annual average of net NRI deposits fell down to US\$ 1509.57 Million in the reform period. It was hoped that the liberalization of economy and coming of foreign investment would give a push to state to work efficiently in order to attract the foreign investors to invest in their respective states, which would automatically reduce the regional disparities. But this hope is totally shattered because economic reform process helped the infrastructurally rich state to grow more as compared to the poor States. Forward State remained forward with annual average growth rate of 6.3 during 1990-91 to 1997-98 whereas the backward state indicated a decline in their annual average growth rate from 4.9 percent to 3.0 percent from 1980-81 – 1990-91 to 1990-91 – 1997-98. Among the backward state Uttar Pradesh and Bihar registered minimum growth. The situation has got worsened with the decline in the assistance from state. Another aspect related to the race of attracting the foreign investment, is the relaxation in the terms and conditions of investment and opening of new forms and closures with taking into account its effects on population and environment and giving them maximum autonomy to do other tasks. Foreign Direct Investments come in the form of Multinational Corporations in the developing countries, including India. MNCs controlled 53.7% of industrial sector in 1970s and their presence in Indian economy increased further.

The share of industries rose to 26.72 percent of GDP. Agriculture, Forestry and Fishing saw decline in its share of GDP with 31.30 percent and the highest share of GDP is from the service sector, i.e. 41.98 percent.

Nineties saw further increase in the annual average growth rate in service sector i.e. 7.67%, industries after experience highest growth rate in 1980s experienced its share of decline and stood at 6.04%. Agriculture and allied activities saw further decline its growth rate at 3.43%. Share of service sector in the GDP is at highest with 48.97

percent in 2001-2002 followed by industries at 26.72 and agriculture with 24.31 percent in 2001-02.

After observing the data regarding the performance of Indian economy in the pre reform period to reform period in the categories of growth such as Gross Domestic Product (GDP), Savings, Consumption Expenditure, Availability of essential goods, Growth of production in agriculture, industries, and service sector of economy, Balance of Payments, Foreign exchange reserves, liabilities and level of Gross Fiscal Deficit, one can ask the defenders and propounders of economic reforms, that, do these economic reforms successfully achieved the aims set by them? To answer this question, Economic reformist would start with much enthusiasm that the GDP increased from 3.5 percent to around 6 percent, but one can argue against this claim stating that the Indian economy had seen this growth of GDP in the 1980s[1985-86 to 1989-90 GDP was 5.8 with the base-year of 1993-94 and 7.0 with the base year 198-81). According to RBI (Reserve Bank of India), the average growth rate of the growth cycle over the 1990s to only 4.4 percent while adopting the liberalization of the Indian economy. Economic reformist agreed that it will give a new dynamism in the commodity producing sectors of the economy. This aim is also not completely achieved as the two sectors of commodity production not only saw stagnation but a decline also in their growth rate. Agriculture sector, the backbone of the Indian economy which not only produced the food grains to feed the population it also provide employment to majority of the work force, was ignored by the reformist while announcing the reform policy for almost at every sector of economy. After 10 years of reforms policy makers did realize the mistake of their ignorance towards agriculture and announced the National Agriculture Policy on 28<sup>th</sup> July, 2000 as late as on to improve the condition of farmers and markets where they sell their products and encourage the private investment in agricultural sector but there was not mention of amount of capital to be invested in the agriculture by the Public sector and also there is a lack of precise measures to be taken for reforms the agriculture sector in the era of liberalization like other sectors.

Industrial sector also saw the decline of growth rate after enjoying higher growth rate in 1980s even after opening up the Industrial sector for domestic private investors and

foreign investors through delicensing, abolition of MRTP provision of prior approval by Government for expansion.

Economic reforms started with the aim of achieving economic development with higher economic growth, increase in the job opportunities for labour force, reducing the level of poverty, equitable distribution of resources to ensure social justice and equality and also to reduce the regional disparities among the states. If we look at these aims and compare it with the above noted data then it will be clear to us how far the economic reforms achieved its aims and objectives.

Growth rate reached to average of 7% from 1994-95 to 1997-98 but decelerated after that. But if we look at average growth rate of pre reform and post reform period, there is not any change in the Gross Domestic product during both period from 1980-81 to 1990-91 (pre reform) to 1990-91 to 2000-01 (post reform) stood at 5.61%.

But taking the growth rate and its impact on poverty reduction then one can say that the growth of post reform period failed to reduce the level of poverty. This is well observed by Dr. S.P. Gupta. In India, the poverty reduction ( i.e. reduction of the percentage of people below the poverty line) over 1983 to 1990-91 was around 3.1 percent per annum but it reversed to 0.1 percent in the 1990s, i.e. between 1990-91 and 1997. In contrast to this, the GDP growth in India between 1983 to 1990-91 was around 5.6 percent and between 1990-91 and 1997 this is expected to go beyond 5.7 percent.

Dr. Gaurav Datt of the World Bank has identified stagnation in rural growth as the principal cause for slowdown in the reduction of poverty”. This clearly indicates that the growth after reforms is not fulfilling the needs and aspirations of millions of Indians who are still living in poverty.

Another aspect in the development of any nation is the opportunities of employment available its population. Providing employment is one of the sure ways to reduce the poverty by the economic reforms negatively affected the employment level. It not only retarded the growth of employment generation but also led to the rising lay offs.

Ruddar Datt, in this regard writes, “The growth rate of employment in the organized sector also decelerated to 0.53 percent during 1993-94 to 1999-00 as against 1.20

percent per annum witnessed in pre reform period of 1983 – 1993-94 ... During the 8 years post reform period (1991-98) a total of 5.52 lakh workers were laid off. On the plea of redundancy, a total of 22,751 workers were retrenched during 1991-98. As a result of 1,862 closures during 1991-1998, a total of 1.33 lakh workers also lost their jobs. Scheme of Voluntary Retirement is also used to get the workers unemployed. Employers want to get rid of the manpower to cut the cost. “Joseph. Stiglitz urged, workers’ rights should be central focus of development”.<sup>41</sup>

But this aspect as seen above is totally neglected in the economic reforms. Liberalization of an economy leads to flexibility of labour. It further leads to casualisation of workforce without job security. As noted earlier, agricultural and industrial growth rate fell down so does their employment elasticity. Tertiary sector especially the service sector is now leading the growth of the Indian economy. This growth is also to some extent dependent on Multinational Corporations providing employment to English educated people. This makes the growth of India dependent on Foreign Investment and demand of Indian services in the international market.

Growth is usually linked to the Human Development. Now look at the impact of economic reforms, some of the indicators of Human Development such as literacy rate, death rate and birth rate, there still exists wide disparities among States. Ruddar Datt provides the following data to indicate the level of human development in India:

Overall, the Human Development Index has risen gradually from 0.406 in 1975 to 0.510 in 1990 and stands at 0.577 in 2000, these have been categorized as a medium human development and have been categorized as a medium human development country by Human Development Report 2002. There has been gradual change and no great changes in the Human Development Index after adopting the economic reforms. There is one positive sign that could help India to rise in the category of Human Development Index, i.e. its population growth rate has declined to 1.95 percent which would help the Government to save and use the resources in other social welfare schemes, which is currently used to meet the demands of increasing population.

In order to achieve the low fiscal deficit that has been fixed at 2-3% of GDP, the Government has reduced the investment in various economic activities which affects the poor section of the society directly or indirectly. The whole burden of cut in expenditure is thrown on the infrastructure and other developmental activities as there has been no major cut down in the subsidies as recommended by the reformers. All



these are jeopardizing the future growth of nation. It has been argued by the reformers that public investment by the state results in the crowding out of private investors. But as the time has shown that public investment and private investment are inter related. Public investment leads to private investment. Public investment in infrastructural industries is very essential to the growth. In order to cut the expenditures agricultural sector has been neglected even though it has been clear that the Indian economy cannot do well until and unless its agricultural sector is in good position.

The problem with the economic liberalization in India is that though it has successfully achieved the aims and objectives of the adopted stabilization measures but failed to transfer the Indian economy from stabilization to high development through structural adjustment measures. Human development has not been taken into consideration seriously while formulating these economic policies that have resulted in the low level of human development in India. The time has arrived to reassess the policies and to mould it by giving the indigenized human face to these policies.

#### **Liberalization of the Economy and its Impact on the role of the State:**

The impact of Liberalization of Indian economy is limited not only to sphere of economy but it greatly affects the power and role of state in other spheres also . It advocates the 'rolling back of state' as against the prevailing system where there is a strong presence of state in every area from production to distribution. This started a debate on the role of state. Regarding this debate, T.N. Srinivasan is of the view that the centre's exclusive role in national defence, external relations, the maintenance of common currency and of national networks of communication and transport and the assurance that there is a single national market, should have an addition of, circumscribed role of redistribution across states. He writes that,

“All other activities could be left to the states. Such a set up would approximate the Market Preserving Federalism of Weingast. Under MPF, the central government would ensure that goods and factors are mobile across states, limited revenue sharing exists among levels of governments. Under these assumptions, the ability of any level of government to tax and spend unwisely would be severely limited since factors would flee any state that did so. However, adhering to other requirements of MPF in the absence of mobility of factors across state might accentuate the existing inter-state disparities in income and poverty as well as lower public expenditures on rural development and poverty alleviations. Alternatively, it might encourage state to compete to provide an environment that is most conducive to economic and social

development. He was optimistic about it and argued that it will result in a race to top rather than a race to bottom”.<sup>42</sup>

His optimism is based on the increasing mobility of factors and rising awareness and knowledge about the development achieved in various states among people will make politicians to work harder and also they have to explain the low level of development in their respective State. But T.N. Srinivasan in his optimism forget the general sentiments of people. Awareness among people regarding low development in their State as compared to other State may generally lead to agitations and revolts against State Governments leading to failure of law and order situation.

Montek S. Ahluwalia regarding the increase role of state governments in comparison to the central government in Indian federalism, writes:

“liberalization has eliminated many of the controls earlier exercised by the central government and thereby increased the role of State governments in many areas that are critical for economic development”.<sup>43</sup>

But later he himself admitted that the central government has a major role in developing infrastructures in the poorer State by shaping its own expenditure on infrastructure to help overcome infrastructure bottlenecks in the poorer State as quickly as possible. He further argued that the State performance with the help of central assistance can be improved if linked to or subject to specific performance criteria or conditionality.

Terence J. Byres while writing against the liberalized reforms policy adopted in the Indian economy quoted Henry Bernstein and Prabhat Patnaik to put a case forward of the strong presence of the state in the liberalized economy against those who argue that the liberalized economy will eventually reduce the presence of state. Henry Bernstein observes the increasing role of the state in the disguise of rolling back of the state, and writes,

“the curious paradox that, where world bank structural adjustment is sought, a critical double contradiction exists whereby the every effort to push back the State has to be pursued via the State”.<sup>44</sup>

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<sup>42</sup>. Srinivasan, T.N., “India’s Fiscal Situation: Is Crisis Ahead?”, in Krueger, Anne O., (ed.), *Economic Policy Reforms and the Indian Economy* (New Delhi: Oxford University Press, 2002), p.59.

<sup>43</sup>. Ahluwalia, Montek S., “State Level Performance Under Economic Reforms”, in Krueger, Anne O., (ed.), *Economic Policy Reforms and the Indian Economy* (New Delhi: Oxford University Press, 2002), p.91,119-120

<sup>44</sup>. T.J. Byers, (ed.), *The State Development Planning & Liberalization in India*, (New Delhi: Oxford University Press, 1998), p. 26

Prabhat Patnaik observes the dependency of the economy on the government especially in a country, like India, hence, forwarding a case of no change in the power of the state in the liberalized economy. In this regard, he writes,

“under the logic of liberalization the State begins to withdraw from the role of a principal player in the arena of production itself. As a result, liberalization leaves the economy without any agency capable of transforming potentially investible resources into actual productive investment, i.e. capable of using the stock in the economy to set up its rate of growth”.<sup>45</sup>

T.J. Byres himself noted that in case of Indian Neo Liberal State, the State beneath the cloak of privatization and de-regulation, would become, in particular respects, more intrusive than it was previously and that especially with regard to control of labour. In this respect arguing against Bhagwati & Srinivasan who supported the need for flexible labour hire and fire policy, T.J. Byres stated that to implement such policy, in face of opposition from the organized labour is likely to involve considerable coercive interference by the state.

Jayati Ghosh and C.P. Chandrasekar gave alternative strategy to Neo Liberal Economic Reforms which pressed the need for strong state which is accountable and responsive to public need.

They are of the view that, “a successful growth strategy has to be based on activist State, that State should be in a position to discipline its industrial class and also mobilize adequate resources. Through incentives and measures to enforce compliance, the government must be in a position to influence investment decision making at a micro level. Such State would ensure thrust on export which is evident in the success of East Asia”.<sup>46</sup>

As we have seen that India though adopted the Neo Liberal Economic Reforms, but its central aspect of ‘minimalist State’ or ‘rolling back of State’ has not materialized yet. No one is favoring the concept of such State in India. Even the supporters of liberalization of economy do not support the cause of real ‘rolling back of state’. But one thing has become clear that the time has arrived to reassess the role and resources provided to state as against the mighty central government. The liberalization of an economy thrown more burden on state governments in providing the crucial infrastructure but this burden is also on the central government because it is still

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<sup>45</sup> T.J. Byres, (ed.), *The State Development Planning & Liberalization in India*, (New Delhi: Oxford University Press, 1998), p. 26

<sup>46</sup> C.P. Chandrasekar, Jayati Ghosh, *The Market That Failed*, (New Delhi: Leftword Book, 2002), p.170-173.

responsible for national basic infrastructure such as communication and railways. In order to enhance the development growth rate without rolling back of state, the state must use the policy of rewards and penalties to assure the discipline among different factors of production.

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## CHAPTER-2

### LABOUR REFORMS: SECTORAL PERSPECTIVES AND DEBATES

Economic reforms had introduced many changes in the different sectors of the Indian economy aiming at high growth and efficiency. Two policies of economic reforms, namely, stabilization and structural adjustment are to provide short-term and long-term solutions to the problems of the Indian economy. It is often argued that economic reforms will not achieve the desired results if adequate reforms are not adopted in other arenas related to the economy. One such arena, where the demand for reform has raised strongly, is the labour market. Indian labour policy is often viewed as rigid and inflexible, hampering the interests of the employers and providing undue protection to the workers. The demand for labour reforms have been focused on amending or doing away of certain labour laws which are claimed to be responsible for not allowing the units to expand and thereby reducing the available employment opportunities to the Indian labour force. However, trade unions and supporters of workers interests consider any such demand for reforms in the labour policy to be against the interests of the workers. The state in India from pre-independence time has played a role of third party to the generally two party labour relations consisting employers and employees. It had played the role of big brother to protect the labour force from the perceived notion of exploitative employers. The demand for labour reforms have remained a thorny issue for the government because it can neither carry the image of protector of labour nor it can ignore the demands and interests of workers. This chapter intends to look into the demand for labour reforms that has been raised from different corners aiming at different goals. The chapter provides the brief history of certain labour laws and provides a discussion on the most contentious laws and the rationale for amending those laws.

In the era of liberalization and globalization, the focus has shifted from protectionism to full-fledged competition at the global level. To give free hand to market forces, state is withdrawing itself from regulation and planning in the area of industries and trade. From planned and socialist economy to the economy based on market forces, de-regulation and privatization. Similar sort of liberalization is expected in the labour market after the economic market is liberalized.

Indian industrial relations or the labour policy depend on the labour legal framework, i.e. the labour laws. There is over presence of labour laws in the organized sector meant for over protecting the workers of that sector and it is argued that there is absence of any such cover by laws in the unorganized sector. The state has the dual role to play, one of protecting the labour in the organized sector and the other of negligence towards the workers in the unorganized sector, which is consisted of the large part of the Indian workforce. These laws are very lengthy. Sometimes they cover even those areas which are of no use as those can be done by the entrepreneur himself, like the laws state how and where there should be toilets and how much distance these should be drinking facilities and also what kind of flooring should be there in the workplace and also where should be the place to spit. All these things make the labour laws more lengthy and complex and difficult to follow.

The motive to have elaborate labour policy consisting of numerous laws was to protect the labour. T.S. Papola and Jesim Pais write,

“There is no doubt that the measures to regulate employment of labour-laws, rules and conventions – have their origin in India in the recognition unequal power balance between labour and capital. Labour has been considered to be a weaker party vis-a-vis the employer and therefore, susceptible to exploitation and in need for protection. The motivation of protect labour has been further strengthened by ideas of equity and social justice that the national movement for independence espoused and which were finally enshrined in the Indian constitution”.<sup>1</sup>

Stand of the government on the issue of the labour policy in the early years of economic reforms has clearly indicated the need to introduce changes to make the Indian market including the labour market an investment friendly. In 1993, the then Finance Minister, Dr. Manmohan Singh, in his inaugural address at 34<sup>th</sup> Annual Conference of the Indian Society of Labour Economics, said,

“Our traditional approach to labour problem was to provide workers with maximum security in terms of both employment and wages. Security to the workers cannot exceed security to the country. Our economy faces various hazards – of draught, payment crisis, shortages etc. – and all of us have to share in these risks. What limited security we have been able to give is available to only a small number of privileged workers and this security has proved increasingly illusory with spreading sickness in some industries. There is also considerable evidence that our institutional structure of industrial relations discourages increased use of labour in

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<sup>1</sup>. Papola, T.S. and Jesim Pais, ‘Debate on Labour Market Reforms in India: A case of Misplaced Focus’, *The Indian Journal of Labour Economics*, Vol. 50, No. 2, 2007, p. 183

production process and therefore militates against the growth of employment in itself ...That is why the safeguards for employment we have embodied in our laws have not worked too well, and may become even less appropriate. If we want our producers to become globally competitive, they have to react rapidly and to adapt themselves to fast changing international conditions. Hence, we will need more flexible work practices, and we must devise ways of ensuring labour against changing in employment which are not firm-specific or industry specific”.<sup>2</sup>

The changing attitude of the government is further made clear with the appointments of various committees on the matter of labour reforms. In this regard Sunanda Sen and Byasdeb Dasgupta write ,

“Several Commissions dealing with labour reforms ( including the National Commission of Labour, 2002) were appointed by the government in recent years. In addition, the Planning Commission constituted a task force under the Chairmanship of M.S. Ahluwalia, the report of which came out in July, 2001. The major thrust of all these official reports has been to do away with existing labour legislations and to permit flexible hiring policies. These removed most of the labour security measures even for the organized sector where labour and other employees are often perceived as a privileged set among other workers.”<sup>3</sup>

J.N. Jain and Ajay Bhola traced the history of labour laws to the pre-independence period under the British rule. They write,

“The history of labour legislation in India is naturally interwoven with the history of British colonialism. Considerations of British political economy were naturally paramount in shaping some of the early laws. In the beginning it was difficult to get enough regular Indian workers to run British establishments and hence laws for indenturing workers became necessary. This was obviously labour legislation in order to protect the interest of British employers. Then came the Factories Act. It is well known that Indian textile goods offered stiff competition to British textiles in the export market and hence in order to make Indian labour costlier, the Factories Act first introduced in 1883 because of the pressure brought on the British Parliament by the textile magnates of Manchester and Lancashire. Thus, we received the first stipulation of 8 hours of work, the abolition of child labour, and the restriction of women in night employment, and introduction of overtime wages for work beyond 8 hours. While the impact of this measure was clearly welfareist, the real motivation was undoubtedly protectionist”.<sup>4</sup>

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<sup>2</sup>. Dr. Manmohan Singh, ‘New Economic Policy and Challenges Before the Labour Economists’, *The Indian Journal of Labour Economics*, Vol. 36, No. 1, 1993, p.7

<sup>3</sup>. Sen Sunanda and Byasdeb Dasgupta, *Unfreedom and Waged Work Labour in Indian Manufacturing Industry* (New Delhi: Sage Publications, 2009),p.188

<sup>4</sup>. Jain J.N. and Ajay Bhola, *Modern Industrial Relations and Labour Laws* (New Delhi: Regal Publications, 2009),p.92-93



The same views are expressed by the T.S. Papola and Jesim Pais when they write,

“The need to legislate to protect the interests of workers and also to ensure the smooth process of production in enterprises was recognized by the British rulers of India. The Colonial Government passed the Factories Act in 1880 laying down the minimum conditions of work in terms of hygiene, safety, hours of work, etc. Several revisions were followed in pre-independence period in 1891, 1911 and so on. The Trade Union Act passed in 1926 set out procedures for registration of Unions and protection of unions from harassment. The pressure for protection of workers against risks at work and life mounted in the 1920s. As a result, several legislations were passed regulating work and providing social security before independence. The provision of compensation to workmen for any injury during the course of employment was made in the Workman’s Compensation Act passed in 1923. Payment of Wages Act was passed in 1936, to regulate intervals between successive wage payment, overtime payment and deduction from the wage paid to the worker. In the sphere of industrial relations, the Trade Dispute Act of 1929 aimed to create an institutional framework to settle disputes ... Crucial labour laws governing various aspects of work were, however, passed in quick succession of each other after independence. And since 1947, there has been a complete change in the approach to labour legislation. The basic philosophy in itself underwent a change and the ideas of social justice and welfare state as enshrined in the Constitution of India became the guiding principles for the formulation of labour regulations. The constitution made specific mention of the duties that the state owes to the labour for their social regeneration and economic upliftment. One of the significant duties which has a direct bearing on social security legislation is the duty to make effective provision for securing public assistance in the case of unemployment, old age, sickness, disablement and other cases of undeserved want”.<sup>5</sup>

They write, “There is no doubt that the measures to regulate employment of labour-laws, rules and conventions – have their origin in India in the recognition unequal power balance between labour and capital. Labour has been considered to be a weaker party vis-a-vis the employer and therefore, susceptible to exploitation and in need for protection. The motivation of protect labour has been further strengthened by ideas of equity and social justice that the national movement for independence espoused and which were finally enshrined in the Indian constitution. In an independent democratic country, it was considered necessary that the rights of employers to hire, dismiss and alter conditions of employment to the workers’ detriments were subjective to judicial security. Accordingly, the Industrial Disputes Act (IDA) enacted in 1947, provided protection to the workmen against lay-offs, retrenchment and closure and for creation, maintenance and promotion of industrial peace in industrial enterprises ... Factories Act, 1948, which replaced the one passed in 1884, aims at regulating the conditions of work in manufacturing establishments employing 10 or more workers using power and above 20 workers without use of power. Similarly, the Minimum Wage Act, 1948, is the most important legislation that was expected to help unorganized workers survive despite the lack of bargaining power. The minimum wages for scheduled employment are to be fixed and periodically revived by the Central and State governments in their respective spheres.

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<sup>5</sup> Papola, T.S. and Jesim Pais, ‘Debate on Labour Market Reforms in India: A case of Misplaced Focus’, *The Indian Journal of Labour Economics*, Vol. 50, No. 2, 2007, p. 184-185

The Act may be applied to every employment in which collective bargaining did not operate and purports to fix the minimum wages in such a manner as to enable the concerned workers subsists at least above the official poverty line. Similarly, Industrial Employment (standing order) Act 1956 is another legislation regulating the conditions of recruitment, discharge and disciplinary action applicable to factories employing 50 or more workers. It requires the employers to classify workers into different categories as permanent, temporary, probationers, casual, apprentices and substitutes. The Contract Labour (Regulation & Abolition) Act, 1970 regulates the employment of contract labour and prohibits its use in certain circumstances. It applies to all establishments and contractors who currently or in the preceding year employed at least 20 contract workers. The idea behind this Act is to prevent denial of job security in cases where it is feasible and of social security where it is legitimate legal entitlement. In the sphere of social security, Employees State Insurance Act (ESIA) was introduced in 1948, providing compulsory health insurance to the workers. The Act provides for a social insurance scheme ensuring certain benefits in the event of sickness, maternity and employment injury to workmen employed in or in connection with the work of non-seasonal factories. The Act has prescribed self-contained code in regard to the insurance of employees covered by it".<sup>6</sup>

Labour market reforms have become a new area where new liberal reformers want the supply and demand factors of market economy to function without any State intervention. According to the exponents of new liberal reforms, regulation of labour market by institutions of Government, reduce the much wanted economic growth. But labour market reforms is not an easy issue to handle. As Jesus Felipe and Rana Hasan points that,

"Labour market reforms tend to be thorny issue for three reasons. First, from a technical point of view, they need to be coordinated with reforms in other markets. Second, from a political point of view, some groups resist changes those with vested interests. These tend to be the ones that perceive that reform as a threat to the status-quo (e.g. Reforms to reduce employment protection). In fact, labour market reforms are probably more difficult to implement than reforms in any other economic area. It is possible that this happens because labour unions oppose them. However, another reason is worth considering. This is existing public perception about the effects of reforms, for they are associated with a deregulation and tendency towards free market and a laissez faire view of the economy ..... Third reason, is that the economic profession is divided between those who seek protective labour market interventions as hindrance to development and those who argue that they have positive effects".<sup>7</sup>

The similar views are expressed by Golak B. Nath, who also find that reforming the labour policy is not an easy task. He writes,

"Partly due to its adverse impact on the political system and partly due to the trade union resistance, the Indian govt. has not yet touched the sensitive issue of labour

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<sup>6</sup> Papola, T.S. and Jesim Pais, 'Debate on Labour Market Reforms in India: A case of Misplaced Focus', *The Indian Journal of Labour Economics*, Vol. 50, No. 2, 2007, p. 185

<sup>7</sup> Felipe, Jesus and Rana Hasan, (eds.), *Labour Markets in Asia : Issues and Perspectives* ( New Delhi: Palgrave Macmillan, 2006), p.71-72

market reforms”<sup>8</sup>.

Labour market reforms were not the part of “first generation of economic reforms”, but these have been now seen as essential infrastructure that would help the reforms initiated in other spheres, such as, industrial reforms to work efficiently and achieve the aim of growth including productive efficiency. Labour market reformers argue for the flexibility in labour market with the absence or elimination of regulations on labour market set by the Government and other institutions, such as, trade unions.

Jesus Felipe and Rana Hasan forwarded the cases for and against labour market regulations, for labour market regulations, they argue that,

“the right to join a union and bargain collectively can increase workers’ voice, encourage stability in industrial relations, promote on the job training and reduce pressure on tax payers to maintain acceptable standards of living by placing the responsibility for decent income and benefits on firms. The provision of unemployment insurance and assistance would not only help workers in times of need but would facilitate job search ... . The employment benefit system can reduce the incentive to work, but it can also provide job training and search among workers and facilitate productivity improvements through enhanced employment flexibility .... . Against labour market regulation, they say that the rational has its roots in the basic supply and demand frame work that assumes perfectly competitive markets. Welfare State interventions raise both the wage floor (the lowest wages that can be paid) and the reservation wage (the lowest wage at which workers will be willing to work) necessarily reducing the demand for labour”.<sup>9</sup>

It has been found that the legal and judicial institutions concerning labour and industrial relation is now considered as the major obstacle in retarding the desired growth of the economy because such institutions make the labour system highly rigid and inflexible making it unfit to avail the new opportunities available in highly flexible market economy.

T.S. Papola and Jesim Pais provide an argument often forwarded by the supporters of the labour policy.

“The debate on labour market reforms appears to be narrowly focused on two sets of issues. The first set of issues relates to the question of rigidity or the inflexibility of the Indian labour markets in a general and the other set of issues relates to the job security provisions of the labour regulations. The debate has completely neglected

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<sup>8</sup> Nath, Golak B., “Political Economy of Labour Market Restructuring in India: Problems and Possibilities”, *The Indian Journal of Labour Economics*, Vol. 40, No. 4, 1997, p. 625

<sup>9</sup> Felipe, Jesus and Rana Hasan, (eds.), *Labour Markets in Asia :Issues and Perspectives*(New Delhi: Palgrave Macmillan,2006), p.73

the two important aspects that should also form part of the reform agenda: elimination of dualism in the labour market by bringing the large excluded segments of the unorganized sector workers into the labour regulatory framework; rationalizing, simplifying and harmonization of the existing labour laws and perhaps in the processes reducing their total number. A large part of the labour market reforms debate, addressing issues of labour market rigidity and consequent inability of the industry to cope with international competition is based more on partisan views, suppositions and beliefs rather than hard empirical facts and logical analysis. On the one hand, it has been argued in this context that the Indian labour market is highly regulated causing rigidities in the adjustment in the use of labour in enterprises which result in high direct and transaction costs, reduce efficiency in production and make it difficult for them to successfully operate in a competitive environment ... Labour laws causing rigidities could hurt workers. In recent times, several government documents also apportion a large part of the blame on inflexible labour markets for the sluggish growth in industrial production. The Second National Commission for Labour has also taken a view that labour markets are not flexible enough to face global competition ... the country is paying a high cost of its labour market rigidity and that reduction in labour market regulations is essential to meet global competition. On the other hand, there are scholars who find that there is flexibilisation of Indian labour market even under the umbrella of highly protective regulations. Those scholars argue that there is increased flexibility since the mid 1980s despite no significant change in labour regulations. Scholars have pointed out that employers in the country have also responded to the restrictive retrenchment laws in many innovative ways, such as, greater use of contract, temporary and casual labour, voluntary retirement schemes, moving to the states where labour is less organized (unionized), the expansion of leasing-in capacity of small firms and sub-contracting, the adoption of newly labour saving technologies and increase in capital intensity and increasing resort to corruption and bribery in order to avoid the legal consequences of retrenchment. In the post liberalization period, when Indian industry was opened to global competition those significant changes in labour laws have been made, scholars have noted a general weakening of the bargaining power of workers through relaxed enforcement mechanism, increased use of contract labour, changing nature of workforce with increased casualisation and feminization, a general weakening of the trade unions and judicial interventions that have been distinctly pro-employer. The governments both at the centre and in the states have been more liberal in respect of other aspects of labour regulation also in recent years. In fact, they do not seem to be very keen on carrying a pro-labour image, the governments in the past seemed to be proud of. Though no significant changes in labour laws have taken place, changes in implementation practices to make labour regulations more enterprises friendly have taken place. Routine inspections by labour officials have been curtailed in many states. Relaxations of various kinds have been allowed, say in the use of contract labour and in hours of work and so on in export-oriented units and IT establishments. At the state level, governments competing with each other to lure investments have resorted to the mechanism of making changes in the regulatory framework through amendments to the central labour laws and the use of executive orders”<sup>10</sup>.

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<sup>10</sup>. Papola, T.S. and Jesim Pais, 'Debate on Labour Market Reforms in India: A case of Misplaced Focus', *The Indian Journal of Labour Economics*, Vol. 50, No. 2, 2007, p. 191-193

Neo Classical theorists argue in the similar manner,

“Minimum wages, labour unions, public sector pay policies, multinational corporations and labour courts ... create labour market inflexibility. The labour market flexibility refers to the capacity to change the quantity, quality and price of labour inputs to reduce production cost, and make output more adjustable to rapid changes in market demand. Inflexible labour market are therefore, those which do not allow these type of changes .... Indeed discussions in many developing countries today about making the labour market more flexible are based on the assumptions that factors such as the increase in the bargaining power of labour unions are responsible”<sup>11</sup> for making the industries inflexible.

“Labour market reforms have often translated into a call for action on three fronts (i) wage setting practices

(ii) regulation affecting hiring and firing

(iii) taxes on labour and social security contributions”<sup>12</sup>

After delicensing and privatization the industries of India are now asking Government to de-regulate market, so that they can enhance the efficiency leading to the growth. They are asking for the acceptance of the policy of hire and fire of employees without any hurdle set by the government. For this, they are asking for the elimination of various labour laws prohibiting them to run the business in the changing global scenario as per the new demands. They argue that labour laws give excessive protection to workers in relation to any change in the economy and apart from these laws, trade unions also make it difficult to change any industrial norms. Exponents of labour market reforms in India are mostly focusing on the Acts related to retrenchment, layoffs, closures and strike etc.

The matter of labour and labour welfare comes under the concurrent list under Article 246 of the Indian Constitution, according to which, both Central and State governments can make laws on item 22 trade unions, industrial and labour disputes; item 23 on social security and social insurance, employment and unemployment; item 24 on welfare of labour including conditions of work, provident fund, employer’s liability, workman’s compensation etc. In case of any dispute the laws made by the Central Government will prevail over the laws made by the State Government. At

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<sup>11</sup>. Felipe, Jesus and Rana Hasan, (eds.), *Labour Markets in Asia :Issues and Perspectives*(New Delhi: Palgrave Macmillan,2006), p.75-76

<sup>12</sup> Ibid

present, there are above 45 Central laws and many more State laws, which are different in each State. This paper will focus only on Central laws for labour. The Central labour laws can be broadly divided into three categories, as forwarded by Arnab K. Hazra, which are as follows:

- i. Laws related to industrial relations.
- ii. Laws related to wages.
- iii. Laws related to social security.”<sup>13</sup>

First two sub-parts are the laws related to industrial relations and wages are applicable more to the organized sectors of the economy and the last sub-part is the laws related to social security are linked to the unorganized sector or informal sector of the economy. The organized sector covers only 8% of the India's labour force which is around 400 millions, that makes around 30 million workers employed in the organized sector and rest of the labour force is employed in the unorganized sector including self-employed.

These labour laws have made it possible for Indian government to regulate the relation between employees and employer to such an extent that there is hardly any place of bilateral talks in industry between them. There exists a Ministry of Labour responsible for resolving the industrial disputes including Chief Labour Commissioner at the Central level and Labour Commissioners at State level and Inspectors to be appointed by the appropriate government. There is adjudication machinery also including Labour Courts and Tribunals.

Government justifies its intervention in the labour market by arguing that the two major players of market, employees and employers, are not equal and employers are much stronger with more market power in their hands as compared to the employees. This inequality leads more often to unfair practices on the part of the employer, such as, under payment of work. Government of India is itself an employer of labour force in the organized public sector of the economy. To set a model of a good employer, it might have entered the industrial relation area and also because of the prevalence of the socialist ideology. In order to provide undue protection to the existing permanent workers, the existing laws make it difficult for new entrants to find jobs. It is also

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<sup>13</sup>. Hazra, Arnab K. , “ Labour Laws and Industrial Relations”, in Debroy, Bibek and P.D. Kaushik, (eds.), *Reforming the Labour Market* (New Delhi: Academic Foundation, 2005), p. 137-138

viewed as working against the interests of the employers who find it difficult to remove a permanent worker from his position as and when required by the changes in the market.

Various studies show that Indian labour laws are highly protective of labour and labour markets are relatively inflexible. These labour laws have restricted labour mobility, have led to the capital intensive methods in the organized sector.

It has been noted in the Planning Commission Report on Labour and Employment that, "it is not easy to quantify the extent of the negative impact of labour market inflexibility. It can be argued that the extent of negative impact is exaggerated. However, a more reasonable conclusion is that it depends upon the economic environment. Rigid labour laws in a particular industry may have less impact on the level of employment if the industry is protected from competition from abroad because of high tariff walls and if technology choices and investment patterns are also controlled by the government making it more difficult for employers to shift to capital intensive products and activities. In such a controlled environment, it could be argued that the high cost of labour resulting from labour market inflexibility can be passed on to consumers in the form of higher prices. However, the negative effect of inflexible labour laws is obviously much greater in a world in which the domestic economy is liberalized and there is also competition from imports. Burdening domestic producers with labour laws that are much more inflexible than those prevailing in other countries reduces their ability to compete effectively with new domestic entrants, who can benefit from new technology and it also makes it difficult to compete with imports. It also limits their ability to compete internationally in export markets, especially in labour intensive products, an outcome of which can be very costly in terms of employment opportunities foregone".<sup>14</sup>

Employers are emphasizing on the flexibility of the labour to reduce the cost and reduction in the welfare schemes. They prefer to work in the informal sector of the economy as it is not much guarded and regulated by the labour laws. They argue that it is easy to expand and generate new employment opportunities for the increasing labour force than in the organized sector.

The over arching presence of state in industrial sphere and labour is presented in the Industrial Dispute Act of 1947(hereinafter referred to as IDA). There is a much support amongst the industrialists and labour market reformers to amend this Act and if not possible to eradicate then at least rationalize that as per the changing

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<sup>14</sup>*Planning Commission Reports on Labour and Employment*, (New Delhi: ECONOMIC Aindia Info-Services, 2002),p.196-197

circumstances of the economic scenario demanding the labour flexibility. The IDA is consisted of forty sections, five Chapters and five Schedules. It can be seen as the gradual evolution of the Trade Disputes Act, 1929 and the Defence of India Rules No. 81-A. Other than these provisions the Act lays down the procedure effecting layoffs, retrenchment, closures, settling of disputes and terms for changing the nature and conditions of service of employees. Labour Department of Central and State governments are responsible for the implementation of IDA. T.S. Papola and Jesim Pais while providing the contents of IDA , write,

“the IDA passed in 1947 was in fact adopted as a comprehensive measure by the Central Government with a view to improve industrial relations. It stipulates elaborate mechanism for settlement of disputes through conciliation, arbitration and adjudication and also lays down procedures for making changes in conditions of employment and separation of workers. The Act introduced the concept of compulsory arbitration and prohibits strikes without notice in public utility services. Under the provisions of the Act, in order to ensure industrial peace, the government can intervene in industrial disputes. However, a large part of the Act are aimed at voluntary arbitration or collectively negotiated settlements. Chapter V-A and V-B are the most contentious of the different chapters in the IDA. These sections define the conditions under which lay-offs and retrenchments are permitted in industrial establishments. The Chapter V-A applies to relatively smaller industrial establishments employing fewer than 100 workers and within this chapter, certain sections apply only to enterprises employing between 50 and 99 workers. The provisions of Chapter V-B on the other hand apply to relatively larger establishments employing on an average not less than 100 workers. Under Chapter V-A, in enterprises with 50 or more workers, employers are permitted to lay-off workers provided they are adequate compensation, which is defined as at least half the average wages received by the workers. For retrenchment of workers, under retrenchment compensation, that is equal to 15 days’ average pay at the time of retrenchment for each year of complete service and give a notice to the appropriate government about the impending retrenchment. Further, the procedure for retrenchment specifies that within a category of workers, the one who is inducted last or the newer workers should be retrenched first ... If an establishment covered under this chapter intends to close down, the Act provides for the procedure for closure which includes 30 days notice period to workers. Compensation package to workers similar to those for retrenchment and a 60 days notice to the appropriate government ... Under Chapter V-B, no employer is permitted to lay-off or retrench any worker or close down operations of the establishment without prior permission from the government. Except in the case of accident or fire, explosions or floods, when an employer under the Chapter V-B intends to lay-off a worker, he is required to obtain prior permission from the government. The employer is required to apply in the prescribed format to the government and at the same time served copy of the application to the worker concerned. The appropriate government may or may not grant permission after



making due enquiries. The order of the government in this regard is final and binding”.<sup>15</sup>

The IDA had been amended various times in the following manner:

- i. In 1964, it was amended to make the notice of termination of an award by adjudication conditional on the approval of the majority of those working in the establishment.
- ii. The 1965 amendment allowed disputes raised by individual workers to be raised as industrial disputes without the mediation of sponsorship.
- iii. The 1971 amendment gave the power to the Industrial Tribunals to reinstate a dismissed worker.
- iv. The 1972 amendment required any industrial establishment employing more than persons to give 60 days notice to the appropriate government before the closure of the industry, stating the reasons for the closure.
- v. The 1976 amendment inserted a special chapter V-B, which made prior approval of the appropriate government necessary in the case of layoffs, retrenchment and closure in industrial establishments employing more than 300 workers.
- vi. The 1982 amendment lowered the limit of the employment size to 100 for mandatory permission before closure and increased the number of days of notice before closure to 90 days. It also specifically excluded from the definition of industry such institutions as Hospitals and Educational and Research Institutions, and made the law inapplicable to Government institutions performing sovereign functions and specific institutions, such as, Atomic Energy, Space and Defence Research.
- vii. The 1984 amendment redrafted 1982 Act, applicable for establishments having more than 100 workers”.<sup>16</sup>

Labour market reformers want to eradicate or rationalize the following provisions of the IDA:

Section 9A – This section lays down that “no employer, who proposes to effect any change in the conditions of service applicable to any workman in respect of any matter specified in the fourth Schedule, shall effect such change – (a) without giving notice to the workman likely to be affected by such change a notice in the prescribed manner of the nature of the change proposed to be effected or (b) within 21 days of giving such notice”.<sup>17</sup>

<sup>15</sup> Papola, T.S. and Jesim Pais, ‘Debate on Labour Market Reforms in India: A case of Misplaced Focus’, *The Indian Journal of Labour Economics*, Vol. 50, No. 2, 2007, p. 190-191

<sup>16</sup> Felipe, Jesus and Rana Hasan, (eds.), *Labour Markets in Asia :Issues and Perspectives*(New Delhi: Palgrave Macmillan, 2006), p.244

<sup>17</sup> Debroy, Bibek, “Issues in Labour Law Reform” in Debroy, Bibek and P.D. Kaushik, (eds.), *Reforming the Labour Market* (New Delhi: Academic Foundation, 2005), p. 54-55

Section 11 - “ Section 11 of the Industrial Disputes Act does not make it mandatory for conciliation officer to try for conciliation. This is despite Section 12 (2), which merely states that the conciliation officer may do all such things as he thinks fit for the purpose of inducing the parties to come to a fair and amicable settlement of the dispute”.<sup>18</sup>

Section 11A - “Where an industrial dispute relating to the discharge of a workman has been referred to a Labour Court, Tribunal or National Tribunal for adjudication and in the course of adjudication proceedings, the Labour Court, Tribunal, National Tribunal, as the case may be, is satisfied that the order of discharge or dismissal was not satisfied, it may, by its award, set aside the order of discharge or dismissal and direct reinstatement of the workman on such terms and conditions, if any, as it may think fit, or give such other relief to the workman including the award of any lesser punishment in lieu of discharge or dismissal as the circumstances of the case may require”.<sup>19</sup>

Section 17B – “ If the employer appeals to the High Court or Supreme Court against the award of the Labour Court or Tribunal, under Section 17-B, full wages have to be paid to the workman pending such proceedings even if the appeal is admitted”.<sup>20</sup>

Section 22- It “ prohibits strikes and lockouts without notices .... in public utilities”.<sup>21</sup>

Section 23 “ prohibits strikes and lockouts for all industrial establishments but only during the pendency of conciliation or arbitration proceedings”.<sup>22</sup>

Chapter V-A “ requires an establishment employing 50 or more workers to give a worker (a) half pay for 45 days in case of a layoff (Section 25 C), (b) thirty days notice and fifteen days pay for every year of work in case of retrenchment (Section 25 P), (c) in case of a closure or the sale of an establishment the employer must fulfill the same condition as for retrenchment unless his successor takes on these obligations (Sections 25 FF and 25 FFF). If the employer had the money to pay the workers, even if the firm were loss making, the question of closure or sale of the firm would not arise. In such a situation, the unit is declared sick and is allowed to continue, functioning on the basis of government subsidies”.<sup>23</sup>

Chapter V-B Sections 25 K, 25 L, 25 M, 25 N and 25 O “these provisions applies to industrial establishments that employ more than 100 workers and require prior permission of the appropriate government before lay-offs, retrenchment and closure”.<sup>24</sup>

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<sup>18</sup>. Ibid

<sup>19</sup>. Ibid

<sup>20</sup>. Ibid

<sup>21</sup>. Ibid

<sup>22</sup>. Ibid

<sup>23</sup>. Ibid, p.88

<sup>24</sup>. Ibid, p.56

T.S. Papola and Jesim Pais observed that neither industries nor trade unions are objected to the provision of compensation paid to the workers or the procedure to be undertaken to retrench workers or for closure, the problem lies with the government permission that has to be taken before staking such step. “The industry has mainly objected to the provision of prior government permission before lay-off, retrenchment and closure under Chapter V-B. This section earlier applies to the establishment employing 300 or more workers”.<sup>25</sup>

The argument against the IDA is that it makes all sorts of differences between workers and employers as industrial dispute leaving no place for the bilateral talk to solve the dispute or differences without the presence or interference from the third party, i.e. the government. This Act does not differentiate between the “rights disputes and interest disputes”. The rights disputes are those disputes relating to the legal rights and interest disputes based on demands without any existing rights. Responding to the criticism on Industrial Disputes Act, Golak B. Nath, notes that

“a host of factors like shortage of power, transport, raw materials, lack of market, mal-practices by management, cost-over-runs, acute competitions, market recession and diversion of funds are some of the leading causes for sickness in industries. Hence, it is unfair to hold the I.D. Act as responsible for the industrial sickness. Often militant trade unions are held responsible for the industrial sickness and plight of labour. He cited Naryanan, M.S., labour unrest is not a cause but a consequence of industrial sickness. When wage payments get delayed or stopped altogether, and bonuses are not declared, labour tends to become restive and this happens in almost all companies which starts becoming sick”.<sup>26</sup>

T.S.Papola and Jesim Pais note that amendment of 1982 in the IDA had its negative impact on the labour relations. They write,

“As a result, it has negative effect on investment and growth in industry and particularly, employment, as the establishments are refrained from hiring workers because they would find it difficult to fire them when not required in future. It only sounds logical that an enterprise should have the freedom to employ only as much labour as it requires for its operations and should not be compelled to carry on burden of surplus labour. At the same time, there should be adequate provision of notice and severance compensation in the cases of retrenchment. Similarly, if a business is no longer economically viable, its owner should have the freedom to close it down, with fair and legitimate provision for compensation to those affected, including the workers”.<sup>27</sup>

The Planning Commission report on labour and employment while suggesting the amendments in the IDA, say, “The provision that retrenchment of labour or closure of a part of a unit requires prior provision is a unique provision of our labour market which has the negative effects; it increases the perceived total cost of hiring labour and thus discourages investment in labour intensive products and activities. These activities remain in the informal sector which has the effect of denying effective

<sup>25</sup> Papola, T.S. and Jesim Pais, ‘Debate on Labour Market Reforms in India: A case of Misplaced Focus’, *The Indian Journal of Labour Economics*, Vol. 50, No. 2, 2007, p.192

<sup>26</sup> Nath, Golak B., “Political Economy of Labour Market Restructuring in India: Problems and Possibilities”, *The Indian Journal of Labour Economics*, Vol. 40, No. 4, 1997, p. 627

<sup>27</sup> Papola, T.S. and Jesim Pais, ‘Debate on Labour Market Reforms in India: A case of Misplaced Focus’, *The Indian Journal of Labour Economics*, Vol. 50, No. 2, 2007, p.191

modernization and technological upgradation in these areas which is essential to ensure competitiveness; Export industries are particularly disadvantaged because exporters face highly competitive markets and need the maximum flexibility to remain competitive. Since these export production areas are all labour intensive, the loss of export possibilities also means loss of potential high quality employment; Foreign investors, who have the opinion to invest in other countries are deterred from investing in labour intensive industries. This maybe the explanation why in many other countries foreign investment has gone into many labour intensive industries with a strong export orientation creating large amounts of high quality employment based on exports, but in India foreign investment has been largely in more capital-intensive industries oriented towards the domestic market....The interpretation of the law (IDA) to extend the provisions relating to retrenchment even to cases of termination of services of a workman as a result of the non-renewal of a fixed term contract of employment between the employer and the workman concerned makes the law unduly rigid. A system of short term employment contracts should be introduced under which workers hired on contract basis can be discharged at the end of the contract period without scope for dispute. In order to avoid legal challenge to this arrangement on the grounds of equal treatment with the permanent labour doing the same job, provisions can be made for paying such labour a premium over the normal wage.....The Industrial Disputes Act provides for advance notice of a strike only in the case of industries notified as public utilities. No such notices needed for other industries. The general practice in many countries is that some notice must be given. It would be desirable to amend the Act to make a reasonable notice mandatory in all cases. It would also be desirable to introduce the system of strike ballot whereby a strike can be called only if it is supported by a qualifying majority of the workers”.<sup>28</sup>

Dismissal for disciplinary reasons is allowed by the law but only if a certain process is being followed by the employer. It involves the “domestic enquiry” which are very lengthy and time consuming. An enquiry officer is appointed by the employer and employee has the right to defend himself. This enquiry has to be set up before the issue of disciplinary warning to an employee. Worker has the power to refuse to respond to summons and appoint professional lawyers. Worker is entitled for the full pay pending the enquiry. So it is not an easy task for the employer to dismiss any worker even when a worker had acted in an indisciplin manner. This has been noted in the Planning Commission reports on labour and employment that,

“Our labour laws in practice also makes it very difficult to dismiss an employee. Dismissal is technically possible for malfeasance, non performance or indisciplin, provided due process has been followed. Unlike retrenchment, no prior approval of government is needed, but in practice, dismissal can be questioned by the trade unions

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<sup>28</sup>. *Planning Commission Reports on Labour and Employment*, (New Delhi: ECONOMIC AIndia Info-Services, 2002),p.199-203

raising a dispute on this matter and this can lead to protracted litigation. The problem in this case is not so much with the law as with the judicial and extra judicial machinery, but the net effect is that the employers are often unable to maintain discipline. These problems are particularly severe for industries which are labour intensive where large number of workers are involved and also for small entrepreneurs who cannot afford heavy transactions cost imposed by such inflexibility”<sup>29</sup>.

The most contentious part of the industrial dispute is the Chapter V-B added in 1976. It is observed by many that the required permission of the appropriate government before layoffs, retrenchment and closure is not granted easily to the employers because the government is sympathetic to the cause of workers who are seen as the weaker section and not tilted towards the businessman. This whole issue of ignoring the interest of private owners had been taken by the Supreme Court of India, when it gave judgment that “gradually, the net was cast too wide and the freedom of the employer tightened to such an extent by introduction of the impugned provisions that it has come to a breaking point from the point of the view of the employers ..... It is not a quite correct to say that because compensation is not a substitute for the remedy of prevention of employment, the later remedy must be the only one. If it were so, then in no case closure can be or should be allowed .... . But, so long as the private ownership of an industry is recognized and governed on overwhelmingly large portion of our economic structure, is it possible to say that principles of socialism and social justice can be pushed to such an extreme so as to ignore completely, or to a very large extent, the interest of other section of the public, viz., the private owners of the undertakings”<sup>30</sup>?

This statement of Supreme Court shows the helplessness of a government, as before 1990’s economic reforms it sided with the workers and it reversed its position after the reforms and came under the pressure of the industrialists to make the labour market more flexible. This statement shows the change in the judiciary system also. The reformers argue that as the permission is seldom given, industries in order to exit the market, the entrepreneurs often indulging in the illegal ways like continuous lockouts though prohibited by the laws. If we look at the penalty for the illegal lockouts, it is punishable with the imprisonment for a term which may extend to one month, or with fine which may extend to one thousand rupees or both. This penalty is surely not enough to stop those who want to close or layoff their workmen. Industrialists also indulge in another practice of not paying the electricity bills for longer period that results in the stoppage of the electricity power rendering the industries in the non workable conditions and this leads to easy layoffs as guaranteed

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<sup>29</sup> Ibid, p.200-201

<sup>30</sup> Debroy, Bibek, “Issues in Labour Law Reform” in Debroy, Bibek and P.D. Kaushik,(eds.), *Reforming the Labour Market* (New Delhi: Academic Foundation, 2005), p.57

by the law. As we have seen that there are many loopholes, taking advantages of these, an industrialist can exit, still the labour reformists argue that this chapter makes the industrial relations very inflexible and rigid with no legal provision to exit and hire and fire policy. Those who want to give with the regulations can argue that this chapter is applicable to those industrial establishments employing hundred or more workers and the number of firms coming under this category is still not high. So, the large number of industries, i.e. the small and medium sized industries are kept outside the jurisdiction of this Act. Also it is applicable to the organized sector that accounts to only about 8% of the total workforce. So, neither the labour reformists should make a huge hue and cry nor those favouring the labour regulations should be much worried about the effect of the scrapping of this whole Act or specific chapter, as the level of effect of such action will be very limited.

Though there has been strong voices of changing the labour laws as per the current wave of liberalization and globalization, “the necessary legislation for diluting the IDA, in particular, has not been introduced as the political consensus is lacking. However, the introduction of the National Renewal Fund in the 1990s, to finance a Voluntary Retirement Scheme in public sector enterprises may well have legitimized layoffs and retrenchments in the formal sector”.<sup>31</sup>

The other law that has been under debate for the labour market reforms is the Contract Labour (Regulation & Prohibition) Act, 1970. It is applicable to whole of India. It applies to establishments employing twenty or more workers as a contract labour on any day of the preceding twelve months and also to the contractor fulfilling the same above stated criteria. But it will not be applicable to those establishments where work of casual nature is undertaken. The appropriate government has the power to decide whether the work is of casual nature or not after the due consultation with the Central Board or State Board as the case maybe. The practice of casual labour makes the labour market more flexible allowing outsourcing.

The main aim of this Act is to regulate and after that abolishing the contract labour in certain cases. Section 10 of this Act states that the contract labour will be abolished in the establishments where the work done by the contract labour is necessary for the trade or business and if it is found that the same work is carried out by a permanent worker in the same or similar establishment It is made more rigid with the passing

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<sup>31</sup>Felipe, Jesus and Rana Hasan,(eds.),*Labour Markets in Asia :Issues and Perspectives*(New Delhi: Palgrave Macmillan,2006), p.260

judgments of the Courts favouring abolishing the practices of contract labour and absorbing the contract labour as the regular worker. For instance, in *Standard Vacuum Refining Company of India Limited Vs. its Workmen*, 1960 and *Veg Oils Private Ltd. Vs. The Workmen*, 1972 upheld the abolishment of contract labour if essential to the concerned industry. In *Air India Vs. United Labour Union*, 1996, Supreme Court had ruled that contract labour must be absorbed as regular worker.

Under this Act, the principal employer is liable to provide facilities, such as, restroom and first aid, if not, provided by the contractor. Amount spent by the principal employer can be recovered by him from the contractor. It is the duty of the principal employer to nominate a representative that will be present at the time of the wage disbursement by the contractor to certify that wages paid by the contractor is as per the prescribed manner.

Labour reformists argue that such sort of Acts and judgments by the legal courts are against the prevailing norms favouring the contract labour worldwide. But the data suggests that inspite of the laws and judgments, there has been the steady increase in the number of casual labour. And also there have been low instances of inspection under the Act to see the enforcement of such Acts.

While forwarding the case for suitable amendments in the Contract Labour Act, T.S.Papola and Jeism Pais, write ,

“The aim of the Contract Labour Act was to provide for the regulation of the contract labour in certain economic activities and for abolition in other circumstances. Under this Act, contract labour has been prohibited in certain category of jobs. For example, with a notification in 2001, contract labour was prohibited in handling of food grains including loading and unloading, storing and stacking in the godowns and depots of the Food Corporation of India. The Act also bars use of contract labour in ‘core’ and perennial activities and regulates employment of contract labour in other activities. In the debate on labour market reforms the employment of contract labour has been one of the most contested issues. It is argued that the nature of the core and perennial activities has changed in the wake of globalized production systems and production based on orders. So even in its core activity, an enterprise does not have same amount of work throughout the year and requires varying magnitude of labour from season to season. Greater flexibility in the use of contract labour, is therefore, necessary. It seems illogical not to allow an enterprise to employ workers on a non-regular, contract basis if the work that it carries out is not of a regular nature and varies in volume from time to time. At the same time, absence of restriction on the practice of contract labour may result in greater use of this form of employment by

employers primarily to deny job security and other benefits to workers. Regulation on the use of contract labour, notwithstanding, the extent of contract labour has significantly increased in Indian industry since early 1990s”.<sup>32</sup>

Similarly, planning commission report on the labour and employment finds that the in the highly flexible globalized market the Contract Labour Act is losing its legitimacy. It says,

“The role of contract labour has to be seen in the context of a growing trend towards unbundling of the production process into component parts and outsourcing supply of these components to different producing units. This practice will only increase with the growth of information technology. If such outsourcing leads to greater specialization in the production of these services and therefore create employment ... The present legal provisions introduce a disincentive to expansion of contractual services because enterprises can freely outsource those services which do not have to be performed on the premises (e.g. Laundry) but for those services which are of regular nature and have to be performed on the premises (e.g. Waiter serving in workers canteens, cleaning, gardening etc.) employers outsourcing these services run the risk that the labour used in such services may be treated as contract labour and may have to be absorbed permanently on the pay roll. This obviously discourage from using such services to the extent that they otherwise might have done, with the net effect of reducing total employment. Alternatively, they are forced to resort to the expedient of insisting on frequent violation of staff so that none of the staff deputed to the unit serve for the minimum period when they can claim permanent status. The Contract Labour (Regulation and Abolition) Act, therefore, needs to be suitably amended to allow all peripheral activities to be freely outsourced from specialized firms, even if it means employees of the specialized firms provide the services on the premises of outsourcing units. The legitimate interests of workers, engaged in these activities should be protected by defining minimum responsibilities of the outsourcing employer for health and safety of the workers employed on his/her premises while relying on extension of appropriate labour regulation to the companies or contractors from which these services are obtained to protect other rights of such labour”<sup>33</sup>

The Trade Union Act, 1926, consisting of 33 sections and 5 chapters, aim is to register the trade union. It gives protection to the rights of workers to form association and secure better wages, working conditions and other benefits through collective bargaining. Seven people coming together can register a trade union, even if not in the same occupation.

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<sup>32</sup> Papola, T.S. and Jesim Pais, 'Debate on Labour Market Reforms in India: A Case of Misplaced Focus', *The Indian Journal of Labour Economics*, Vol. 50, No. 2, 2007, p.189-190

<sup>33</sup> *Planning Commission Reports on Labour and Employment*, (New Delhi: ECONOMIC AIndia Info-Services, 2002), p.204-205.



Under “Section 17 of the Trade Union Act, the office bearers of the union get protection from criminal conspiracy and Section 18 provides them with immunity from Civil Suits in certain cases”.<sup>34</sup>

The reformists argue that with the easy procedure of registering a trade union, there has emerged a large number of trade unions. Such “large number of trade unions have led to the inter-union rivalry for members ..... . In 1950-75 almost thirty percent of the industrial disputes in India could be attributed the problems of union recognition and inter-union rivalry. As Ramaswamy (1984) says, a union has to call an occasional strike to show that it is active in the cause of its members”.<sup>35</sup>

Also there has emerged over politicization of trade unions after independence, as political parties consider the organized labour as their vote bank. With the aim of securing their vote bank, many political leaders became the office bearers of the trade unions, which made the aims and objectives of these trade unions more political than economical. All this led to the disturbances in the smooth functioning of industries.

All these threats of trade unions do not seem to prevail after 1990s, as one can see the declining numbers of strength of the trade unions. And also the Delhi High Court in its judgment in “Mahanagar Telephone Nigam Limited Vs. Bhartiya Mahanagar Telephone Nigam Karamchari Sangh, 1991, stated that a union has no right or freedom to hold a demonstration including a sit in demonstration in property belonging to another. No one can be allowed to exercise his right so as to prejudice the right of another .... . The right of labour unions of speech and formation of assembly and demonstration of their point of view has to be exercised within the framework of law and should not lead to violence and misrepresentation of law and others in the society .... . A trade union and its members can be restrained by the court from staging demonstration within the 100 meters of the factory gate /residence of the Managing Director and they cannot interfere with the ingress and egress of officers, employers and customers”.<sup>36</sup>

Golak B Nath ,provides a strong argument that the alleged trade unions militancy has withered away paying a way for the so called employers militancy. Author writes,

“It has been argued that militant trade unionism does not provide the flexibility required for the employer to restructure the industry with a view to cutting labour cost and make it more competitive. In this context it is pertinent to note that in the post reform scenario through various formal and informal wage workers are prevented from forming any union and when unions are formed, they are prevented from functioning efficiently. Sometimes, managements have gone to the extent of liquidating the trade union leaders or threatening the workers and leaders of dire

<sup>34</sup>. Hazra, Arnab K. , “ Labour Laws and Industrial Relations”, in Debroy, Bibek and P.D. Kaushik, (eds.), *Reforming the Labour Market* (New Delhi: Academic Foundation, 2005), p.161

<sup>35</sup>. Khan, Amir Ullah, “Regulating Labour Market”, in Debroy, Bibek and P.D. Kaushik, (eds.), *Reforming the Labour Market* (New Delhi: Academic Foundation, 2005), p.84

<sup>36</sup>. Venkataratnam, C.S., “Labour Market in India”, Debroy, Bibek and P.D. Kaushik, (eds.), *Reforming the Labour Market* (New Delhi: Academic Foundation, 2005), p.133

consequences if they would not fall in line with the prerogatives of management. Murder of Sankar Guha Niyogi and the consequent set back to the Chattisgarh Mukti Morcha's struggle Bhilai-Rajnandagaon-Raipur industrial belt of Madhya Pradesh is a case in point. The employers are using numerous devices like closures, lock-outs, sub-contracting, transfer of ownership, tie-up, merger etc. to intimidate the workers. The magnitude and intensity of lock-outs has increased in comparison with the strikes which reflect the employer's militancy rather than that of the workers. A to impose a lock-out. Management decides when to lift lockouts and when to impose them. Despite legal protection, labour market flexibility is being followed by management by persuading and forcing workers to seek voluntary retirement".<sup>37</sup>

T.S.Papola and Jesim Pais observed the change in the attitude of the trade unions regarding the issue of the much desired flexibility in the labour market.

"The trade union's resistance to labour flexibility measure has mellowed. A large part of the trade union effort now is to help workers get adequate monetary compensation in the event of job losses due to retrenchments and closures. Apart from this, trade unionism is itself not that wide spread even among the organized enterprises ... It may be noted that the discussion on the rigidity or inflexibility has been related to the labour markets that cater to the organized sector of the economy. Organized sector employment accounts for only 7 to 10 percent of the total workforce, depending on the measures used and in a sense, the literature on the rigidity of the labour markets indirectly concedes that labour market rigidity due to labour regulations is not significant factor by the very fact that a large proportion of the workforce is not covered by the labour regulations. The excessive focus on the subject of the prior government permission for retrenchment and closure has, in fact, resulted in unnecessary waste of energy and time and has diverted attention away from a number of other aspects of the labour market reforms that could have been more amicably and fruitfully addressed. Although it appears theoretically valid to argue that restrictions on adjustments of labour can discourage hiring of workers, the empirical evidence on the subject is not clear. Decision to employ or not employ additional workers is subsequent to the decision to expand business or not which primarily depends on the market for the product and whether to use more labour or not, to carry out the expansion of business would then depend on available technology and factor price relativities. These factors are certainly much more important than the freedom to fire, as even with restrictions on it, industries and enterprises with expanding markets have increased their production and employment. Slow growth of aggregate employment obviously cannot be attributed to the restrictions on retrenchment as is often done, for it applies only to a very small segment of the economy and the decline in organized sector employment over the recent years, particularly since 1997, is primarily contributed by the public sector for which factors other than labour regulations have been responsible".<sup>38</sup>

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<sup>37</sup>. Nath, Golak B., "Political Economy of Labour Market Restructuring in India: Problems and Possibilities", *The Indian Journal of Labour Economics*, Vol. 40, No. 4, 1997, p. 626

<sup>38</sup>. Papola, T.S. and Jesim Pais, 'Debate on Labour Market Reforms in India: A Case of Misplaced Focus', *The Indian Journal of Labour Economics*, Vol. 50, No. 2, 2007, p.195

There is a need to reform the Trade Union Act so as to make it applicable in the current scenario. It has been argued that the required number of workers to register a trade union should increase to 10% of the employees in that establishment. Also there should be the abolition of the practice of allowing outsiders to hold the office of the trade unions as they are not concerned party and the employees themselves should vote among themselves to choose the members who will hold the offices. Also there should be the introduction the secret ballot as suggested by many to remove the hurdle of multiplicity of the trade unions and the union securing more than 50% or the majority of votes whichever is high should be made eligible for representing the cause of the workers in the procedure of the conciliation.

There is a total neglect ion of the other aspects of the labour laws which needs immediate attention to make the labour policy suitable in the economic system being guided by the labour forces. There are laws that lead to complexity, non compliance and absence of clarity in the presence of many definitions or explanations of one term.

Take a case of the definition of workman under “The Contract Labour (Regulation & Abolition) Act, 1970, the workman means, any employed, in or in connection with the work of any establishment to do any skilled, semi-skilled or unskilled, manual, supervisory, technical or clerical work for hire or reward, ..... but does not include any such a person who is employed mainly in a managerial or administrative capacity or who, being employed in a supervisory capacity or who draws wages exceeding five hundred rupees per mensem or exercises, either by the nature of the duties attached to the office or by reason of the powers vested in him, function mainly of a managerial nature; or who is an outworker, i.e. to say a person whom any article and material are given out by or on behalf of the principal employer to be made up, cleaned, washed, altered, ornamented, finished, repaired, adapted or otherwise or processed for sale for the purposes of trade or business of the principal employer and the process is to be carried out either in the home of the outworker or in some other premises, not being premises under the control and management of the principal employer”.<sup>39</sup>

This definition of workman is lengthy, complex and not according to the changing globalized world. In the era of outsourcing or the concept of work from home, where workman do most of their work at home and manier times workers have to take decisions immediately like for instance, stopping the work if the machines are not working properly. Also the wage limit set by the law to classify a person as a workman is also outdated. And under this law the contract labour is left out.

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<sup>39</sup>. Jain J.N. and Ajay Bhola, *Modern Industrial Relations and Labour Laws* (New Delhi: Regal Publications, 2009),p.122

Whereas the Section 2(1) of the Factories Act do include a worker employed directly or by or through any agency including a contractor with or without the knowledge of the principal employer, working for the remuneration or not is included under the definition of a worker, which is, to some extent in contrast to the above stated definition of worker in the Contract Labour Act.

The two different terms are used to denote one person who is working, one is the workman and the other the worker, not only this, “the Payment of Wages Act uses the term employed person, Minimum Wages Act uses the term employee and the Mines Act uses the term employed.”<sup>40</sup>

All these different terminologies create confusion, while handling the labour issues. There should be one definition of a concept in all different laws. The language of laws should be made more understandable by even a layman.

Labour market reformists should focus on “harmonizing and unifying the labour legislations under three different heads, laws, that relate to wages, laws, that relate to social security and laws, that relate to industrial relations”<sup>41</sup>. There should be integration of different laws into one chapter.

Similar views are expressed by the T.S.Papola and Jesim Pais when they write,

“An issue in the debate of reforms in the legislative framework, including the debate on labour regulation reform, is that there are too many labour laws and there is need for rationalization, elimination of multiplicity and overlap in laws. There has also been a feeling in some quarters including the employers that large number of laws is the result of placing labour in the concurrent list. This has led to a demand that labour be removed from the concurrent list and placed in the state list. Not only are the laws numerous, they overlap, there is multiplicity of laws, detailed and elaborated stipulations and many definitional and conceptual inconsistencies. Multiplicity of laws often covering the same subject makes compliance difficult for the employers and also gives scope for exclusion of many workers. Many laws, in their zeal to provide for every conceivable aspect of the covered subject, tend to make provisions so detailed that they become difficult to implement”<sup>42</sup>

Though the labour laws are not applicable to the organized sector, but there are many laws for women who are employed in the unorganized sector in a large number. “All major central laws are equally applicable to women workers. The Equal Remuneration Act was passed in 1976, providing equal pay for men and women workers for the same or similar work. ... In 1997 the Supreme Court of India

<sup>40</sup>. Debroy, Bibek, “Issues in Labour Law Reform” in Debroy, Bibek and P.D. Kaushik,(eds.), *Reforming the Labour Market* (New Delhi: Academic Foundation, 2005),p.46

<sup>41</sup>. Khan, Amir Ullah, “Regulating Labour Market”, in Debroy, Bibek and P.D. Kaushik, (eds.), *Reforming the Labour Market* (New Delhi: Academic Foundation, 2005), p.94

<sup>42</sup>. Papola,T.S. and Jesim Pais,‘Debate on Labour Market Reforms in India: A Case of Misplaced Focus’, *The Indian Journal of Labour Economics*, Vol. 50, No. 2, 2007,p.196

announced that sexual harassment of working women amounts to a violation of gender equality rights. As a logical consequence, it also amounts to a violation of the right to practice any profession, occupation and trade.”<sup>43</sup>

The whole efficiency of such law and judgments depend on the enforcement machinery which is often found to be very ineffective and corrupt. Planning commission report also acknowledged the inefficiency of the government mechanisms to implement the labour laws.

“There are also problems with the enforcement machinery, i.e. the various inspectors responsible for enforcing the law. Complaints are frequently voiced by industry that this machinery uses the extensive powers at its disposal to harass employers with a view to extract bribes, a process which imposes especially heavy costs on small entrepreneurs. Equally, an opposite view is expressed by trade unions that the labour enforcement machinery needs to be further strengthened in the interest of better enforcement of labour laws”.<sup>44</sup>

As stated earlier that the unorganized sector is working without labour laws, but there are laws made for the unorganized sector only such as “ Building and Construction Workers Act, 1996, the Bonded Labour System (Abolition), Act, 1976, the Dock Workers Act, 1986, the Child Labour Prohibition and Regulation Act, 1986 .... “ There are other laws that are equally applicable to both sectors of the economy, such as “The Trade Union Act, 1926, the Minimum Wages Act, 1948, the Contract Labour Act ....”<sup>45</sup>

Reformists want to do away with the labour laws. The view is that when the labour has the freedom to come and go out of the labour market, so the industrialists should have their freedom of entry and exist in the market. It should be noted that if a labour join or leave the market it would not affect rest of the market but if an industrialist running an establishment employing other workers, one day just leave the market by shutting the establishment close, it will affect many workers working there directly, and many more who are dependent on those workers.

Reformists emphasizing on flexibility and its positive affect on productivity. They argue that the over protection of jobs such as in the public sector of the organized sector made the workers relaxed and ineffective. Flexibility will make the workers more efficient and productive in the absence of job security.

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<sup>43</sup> Felipe, Jesus and Rana Hasan,(eds.),*Labour Markets in Asia :Issues and Perspectives*(New Delhi: Palgrave Macmillan,2006), p.243

<sup>44</sup> *Planning Commission Reports on Labour and Employment*, (New Delhi: ECONOMICAIndia Info-Services, 2002),p.198.

<sup>45</sup> Jain J.N. and Ajay Bhola, *Modern Industrial Relations and Labour Laws* (New Delhi: Regal Publications, 2009),p.101

The labour market reformists also argue against the setting up of minimum wages to be paid by an industrialist to its workers set by the government, saying that it work against the normal functioning of market forces. But in India the minimum wages set by the government is not high enough to disturb the mechanism of labour market forces and also the enforcement machinery is not very strong to apply such policies. There are state to state variations in setting the minimum wages as per the development level of the concerned state. Those who are against the labour flexibility in the era of liberalization of economy argue that it can also lead to workers bearing a greater burden of the impact of non wage labour cost.

T.S.Papola and Jesim Pais provide a strong argument that the Indian labour market as criticised by the supporters of the reforms is neither inflexible nor rigid and a fair amount of the flexibility prevail in the Indian labour market often with the support of the government after adoption of economic reforms without any change in the existing labour laws. They write,

“The debate on labour market reforms appears to be narrowly focused on two sets of issues. The first set of issues relates to the question of rigidity or the inflexibility of the Indian labour markets in a general and the other set of issues relates to the job security provisions of the labour regulations. The debate has completely neglected the two important aspects that should also form part of the reform agenda: elimination of dualism in the labour market by bringing the large excluded segments of the unorganized sector workers into the labour regulatory framework; rationalizing, simplifying and harmonization of the existing labour laws and perhaps in the processes reducing their total number. A large part of the labour market reforms debate, addressing issues of labour market rigidity and consequent inability of the industry to cope with international competition is based more on partisan views, suppositions and beliefs rather than hard empirical facts and logical analysis. On the one hand, it has been argued in this context that the Indian labour market is highly regulated causing rigidities in the adjustment in the use of labour in enterprises which result in high direct and transaction costs, reduce efficiency in production and make it difficult for them to successfully operate in a competitive environment ... Labour laws causing rigidities could hurt workers. In recent times, several government documents also apportion a large part of the blame on inflexible labour markets for the sluggish growth in industrial production. The Second National Commission for Labour has also taken a view that labour markets are not flexible enough to face global competition ... the country is paying a high cost of its labour market rigidity and that reduction in labour market regulations is essential to meet global competition”. On the other hand, there are scholars who find that there is flexibilisation of Indian labour market even under the umbrella of highly protective regulations. Those scholars, “ argue that there is increased flexibility since the mid 1980s despite no significant change in labour regulations. Scholars have pointed out

that employers in the country have also responded to the restrictive retrenchment laws in many innovative ways, such as, greater use of contract, temporary and casual labour, voluntary retirement schemes, moving to the states where labour is less organized (unionized), the expansion of leasing-in capacity of small firms and sub-contracting, the adoption of newly labour saving technologies and increase in capital intensity and increasing resort to corruption and bribery in order to avoid the legal consequences of retrenchment. In the post liberalization period, when Indian industry was opened to global competition those significant changes in labour laws have been made, scholars have noted a general weakening of the bargaining power of workers through relaxed enforcement mechanism, increased use of contract labour, changing nature of workforce with increased casualisation and feminization, a general weakening of the trade unions and judicial interventions that have been distinctly pro-employer. The governments both at the centre and in the states have been more liberal in respect of other aspects of labour regulation also in recent years. In fact, they do not seem to be very keen on carrying a pro-labour image, the governments in the past seemed to be proud of. Though no significant changes in labour laws have taken place, changes in implementation practices to make labour regulations more enterprises friendly have taken place. Routine inspections by labour officials have been curtailed in many states. Relaxation of various kinds have been allowed, say in the use of contract labour and in hours of work and so on in export-oriented units and IT establishments. At the state level, governments competing with each other to lure investments have resorted to the mechanism of making changes in the regulatory framework through amendments to the central labour laws and the use of executive orders”<sup>46</sup>.

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<sup>46</sup> Papola, T.S. and Jesim Pais, 'Debate on Labour Market Reforms in India: A Case of Misplaced Focus', *The Indian Journal of Labour Economics*, Vol. 50, No. 2, 2007, p.191-193

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## CHAPTER-3

### EMPLOYMENT IN THE FORMAL SECTOR: AN APPRAISAL

At the time of adopting the new economic policy that aim to change the inward looking Indian economy to the outward looking and linking it fastly with the globalize market. It was argued by the neo liberal reformers that this would solve the twin problems of India, namely, slow growth rate and unemployment. Unemployment can be seen as the hurdle in achieving the objectives of our planners, such as, social justice and poverty eradication. Employment is the most sought after means to achieve above stated objectives. Since independence, providing employment to the Indian masses for improving their living standards and pulling out millions from the shackles of poverty has been a cherished ideal, which is supposed to be achieved in a phased manner with every five year plan. But with the passage of time and many five years plans, the number of unemployed and those of under-employed have increased. One can view the rise in number of unemployed people as a result of the increase in the population which resulted in the increase of labour force available as a surplus in the labour market. The rise of population at a much faster rate always watershed the effect of the new job opportunities made available in the market. After 1990s, there is a well observed fact, that the rate of growth in population has decreased, which will surely help in the decreasing the labour force seeking employment. However, there still remains a huge backlog in the labour force that has been created in the past years that has to be cleared to achieve the dream of 'employment to all'. Employment in India is seen as the part and parcel of the growth of Indian economy, so it is generally accepted and practiced that the growth of economy will create more job opportunities, to some extent, it is correct, but one has to look at the production process and see whether the production process is able to provide employment to the population. The labour force in India is still unskilled or semi-skilled. Since 1947 till date more than half of the workforce is employed in the agriculture sector of the economy, which faces the problem of low productivity leading to under-employment and low wages with low output. There has been economic development which was slow and gradual in the planned era but more furiously after adopting the economic reforms policy in 1990s but this high growth is unable to help in finding a secured employment to Indian labour force which can elevate their standard of living.

This paper will look into the employment structure in India with the changes, if any, that has been brought by liberalization, privatization and de-regulation. This paper is divided into four sections. First section will look into the two sectors of the economy, i.e. organized and unorganized sectors. In the second section, there will be a discussion on the impact of labour flexibility and economic growth on the employment scenario and relation between employer and employee. The third section will focus on the Organized employment structure after 1990s, which is the main objective of the paper and lastly in the fourth section the position of women working in different sectors of the economy has been provided.

### **Organized and Unorganized Sectors of the Indian Economy:**

Jawaharlal Nehru adopted the mixed economy for India so that socialism with capitalism can co-exist for the betterment of India. Within this mixed economy framework, the two sectors co-exist for the betterment of the Indians. These two sectors are organized or formal sectors and unorganized or informal sectors. These two sectors are different from each other, in the sense of ownership, size, technology and capital invested in their production processes. After adopting the liberalization policy with the introduction of flexibility, it is observed that Indian economy is now dominated by the unorganized sector as its share in the GDP has increased and also it is more labour absorptive in comparison to the organized sector. 7-8% of Indian workforce is employed in the organized sector, whereas more than 90% is involved in the unorganized sector.

This section will try to differentiate between organized and unorganized sectors of the Indian economy though the boundary line differentiating them is very thin.

As noted by Barbara Harriss White, “ The informal economy is the economy not covered by the official data on registered enterprises ... informal economy is the economic activities of the firms and individuals that is not registered for the purpose of taxation and/or regulation by the State.... it involves production or exchange that does not take the form of market transactions... fall below the size threshold for direct taxation or licensing – generally where the revenue collectable would be less than the administrative costs of collecting it. In this respect virtually the entire agricultural sector is informal .... it involves various kinds of mobile exchange and production from rag picking and recycling .... rural home working financed from towns ... it is criminal business activity (for example, adulteration, forged brands and labels). Breman also notes India’s informal economy included production and exchange of a

substantial scale and was capitalist in nature, but under conditions where the social relations of the labour process were highly personalized”.<sup>1</sup>

The author further gave the nature of self-employment of the informal sector. “The informal economy has now estimated at 60% of GDP ... The biggest component of the unorganized workforce consist of the catch all category of the self-employed. Although self-employed may cover small family businesses for the most part people classified this way are semi-independent peasants with small assets, petty commodity producers and traders. They exploit their own household members and often both hire-in and hire-out labour according to seasonal peaks”.<sup>2</sup>

Barbara Harriss White provides the insight into the some of the features of unorganized economy. “ The large size, relatively high growth and labour absorptive capacity of the unorganized economy are distinctive features of Indian capitalism ... Another feature is the unskilled nature of much of this work, reinforced by the use of casual labour and flexible employment practices, so the little importance is attached to training and development of the skills. A further distinctive feature is the absolute poverty of the workers”.<sup>3</sup>

Unorganized Sector of the Indian economy has found to be still dominated by the age old tradition of practicing caste and gender domination.

Barbara Harriss White opines, “caste still shapes ideologies of work and status. It makes for compartmentalized labour market, with non-competing groups, whose options are severally constrained. It stratifies pay. By means of caste, entry into the non farm economy is screened. Caste ideology also affects whether women work at all, what work they can do and how far from whom they may move. In particular, to be in the scheduled caste makes a person twice as likely to be a casual labourer in agriculture and poor. Schedule castes women are also more likely to be in low paid menial labour, thus reinforcing the gender division ... Elsewhere as labourers, they are often still found doing physically dirty jobs or handling food still to be stripped of its protective husks and shells. As petty traders they have entered markets for commodities with certain physical properties; for example, fruits with skin or recycled materials – that need further physical transformation before being consumed ... Workers themselves sometimes enforced the stratification of occupations by caste so as to maintain their hold over enclaves of the labour markets or sectors of petty trades ... While caste is used by employers to exploit labour and keep it fragmented, labourers too deploy caste identities to organize and, often, to enhance their status in the face of exploitation .... When employers and labourers belong to the same caste, labourers often emphasize their caste solidarity with employers, thereby ensuring the exclusion of other caste groups”.<sup>4</sup>

Vinod Anand notes, “ informal sector units invariably face lesser difficulties and hazels in terms of registration, government regulations and formalities in terms of

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<sup>1</sup> White, Barbara Harriss, *India Working, Essays on Society and Economics* ( Cambridge, U.K.: Cambridge University Press, 2003), p.4 and footnote 6.

<sup>2</sup> Ibid, p. 19.

<sup>3</sup> Ibid, p. 20.

<sup>4</sup> Ibid, p. 31-32.

norms, codes and laws for initial entry ... relies more on indigenous resources/inputs ... ownership in informal sector is limited to family ownership .... has small scale operations ... the technique of production in informal sector is essentially adapted and labour intensive ... the skills used in informal sector are self-learned and are acquired outside the formal school system ... exposed to unregulated and competitive markets ... Informal sector enterprises, essentially micro and small with not more than 50 workers engaged in manufacturing activities, like, light consumer goods ... Most of these enterprises are located in rural areas and their activities are rather invisible in the sense that they take place within the household or farm compound ... hired workers form the smallest segment of the sector, are generally found in the more modern type of enterprises operating on a large scale".<sup>5</sup>

Arup Mitra notes, "Informal sector has been defined in the literature on the subject (ILO, 1970 and 1972) primarily in terms of small size, perfect competition in the product and factor (labour) market, and absence of govt. protection, inadequate physical and financial capital reflected in a low capital labour ratio and absence of unionization. The informal sector is associated with certain characteristics, which keep the earnings of the workers low. Clearly, it is not defined as a low income sector but the characteristics associated with this sector lower the level of income accruing to the workers. For example, low capital intensity, high degree of competition in the product market, free entry, small operational units, and the unskilled nature of labour generate meager earnings. It would be realistic to acknowledge wide diversity even within the informal sector, with many activities serving on the margin as repositories of surplus labour (i.e. segmented market for both, labour and output), other selling in a market that represent product differentiation (i.e. segmented market for labour but not for output) and any others performing specific functions in an inter-related production system (i.e. segmented for labour but linked in terms of output)".<sup>6</sup>

Organized or formal sector of the economy is characterized by the usage of, "more overseas resources ... corporate ownership ... imported and capital intensive (technology) ... formally acquired skills (by labour)".<sup>7</sup>

Indian organized sector is further divided into sub-sectors, namely, public sector and private sector. "The organized sector in India includes all government and public sector employment as also the private sector establishments which have at least 10 workers under the Factories Act, 1948".<sup>8</sup>

Organized sector includes non-agricultural establishments employing 10 or more persons in the private sector as specified by the National Sample Survey Organization and Directorate General of Employment and Training.

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5. Anand, Vinod, *Indian Journal of Economics*, p. 212-21.

6. Institute of Applied Manpower Research, *Reform and Employment*, (New Delhi: Concept Publishing Co., 2002), p. 81 endnote 1.

7. Anand, Vinod, *Indian Journal of Economics*, p.213.

8. Deshpande, L. K. Alakh, N. Sharma, Anup K. Karan, Sandip Sarkar, (eds.), *Liberalisation and Labour Labour Flexibility in Indian Manufacturing*, (New Delhi: Institute for Human Development, 2004), p. 66.

Organized sector is characterized by much higher wages in comparison to the unorganized sector. Organized sector is well regulated with job security and other benefits provided to the workers which are usually absent in the unorganized sector. Workers of the public sector of organized sector receive even higher wages and benefits than those in other sectors for similar skills. Public sector enjoys much more job security because of the prevalence and strict implications of laws and regulations by the government as well as the strong presence of trade unionism that protects the rights and welfare of its workers. Workers in this sector receive pension benefits and other old age benefits.

“India’s public sector can be divided into three categories, first is the governmental bureaucracy – Central, State and local. In the second category are departmental enterprises, which are run directly by government and are not separately incorporated such as postal services, railways and parts of telecommunication system. The third category comprises non-departmental enterprises incorporated as independent companies and includes firms in manufacturing as well as services”.<sup>9</sup>

Within the organized sector the public sector occupies the place of employment generating source that accounts for more than half of the total employment generated in the whole organized sector. For the public sector employees there is the provision of the formation of Pay Commissions at regular intervals to make appropriate changes in the salaries or wages of the employees that usually results in the increase of the income without considering the level of efficiency amongst the workers.

Unorganized sector flourished without any assistance and protection from the government since independence, but now it accounts for around 60% of GDP and more than 92% of total workforce is employed in this sector with low levels of income and without any job security to its workers. With the adoption of liberalization, the organized sector is losing its stronghold in the economy, as the new policies demand flexibility in production and labour market. As there is flexibility to some extent in the unorganized sector, this sector is able to adapt fastly to the new environment when compared to the organized sector as it is bounded by the rigidities.

In order to compete in the international market, the demand for the flexibility is raised

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<sup>9</sup> Rammohan, T.T. , *Privatisation in India Challenging Economic Orthodoxy* (London, New York: Routledge Curzon, 2005), p. 21.

very strongly in India; however, the demand has been kept limited to the labour market, affecting the workforce. The paper will now turn to the issue of labour market flexibility in the Indian economy.

L.K. Deshpande et. al. provide the different kinds of flexibility that are usually practiced in the global market.

“Organization or Production flexibility - It is claimed that fordism or mass production is dead and we are in the days of small establishments and flexible specialization ... Large firms have extended their division of labour by linking activities between firms by outsourcing or selling out activities done previously in-house ... Large firms are engaged in adopting flexible organizational structures to reduce the risk and uncertainty by vertical disintegration including de-centralization of production.

Wage system flexibility: - ... wage flexibility is increasing in the developed and developing economies. Wage differentials have widened and share of wages in national income fallen. Unit labour cost, though laws were alleged to be high enough to effect international division of labour or for firms to shift location ....

Employment or Numerical flexibility - it refers to the ability of firms to become more competitive by reducing employment with minimal constraints, quickly and with little costs. It reflects the ability of firms to hire and fire the workers easily and at low cost. Employer alleges that statutory regulations have made quick dismissal difficult and prohibitively costly ... They rely on flexible worker categories or contingent labour to meet the increased demand or use capital intensive technology ... Some of the emerging labour categories are casual, temporary and permanent temporary workers, consultants, sub-contractors, agency workers, home workers, tele-workers, part-time workers and concealed workers.

Work process (functional) flexibility – the speed and ease with which a firm can adapt to technological innovations and market fluctuations by altering established practices of working time, job mobility and flexibility is called functional flexibility. It is linked to external flexibility and is facilitated by forms of non-regular labour”.<sup>10</sup> It is further noted that “labour market flexibility is thus interpreted to mean the absence of norms and institutions and is regarded as essential for maximization of both employment and economic growth .... Intervention in the labour market by either governments or workers organizations should be minimized ....”<sup>11</sup> “The adoption of flexible labour practices within an establishment depends on the state of the labour market. A loose labour market characterized by high and increasing unemployment helps employers to adopt flexible labour practices by passing Labour Laws with impunity”.<sup>12</sup>

<sup>10</sup>. Deshpande, L. K. Alakh, N. Sharma, Anup K. Karan, Sandip Sarkar,(eds.),*Liberalisation and Labour, Labour Flexibility in Indian Manufacturing*, (New Delhi: Institute for Human Development, , 2004), p. 23-25.

<sup>11</sup>. *Report of National commission on Labour 2002-1991-196*,(New Delhi: Academic Foundation, 2003), p. 55.

<sup>12</sup>. Deshpande, L. K., Alakh N. Sharma, Anup K. Karan, Sandip Sarkar,(eds.),*Liberalisation and Labour, Labour Flexibility in Indian Manufacturing*, (New Delhi: Institute for Human Development, 2004), p. 28.

Ajit K. Ghose writes “Labour market flexibility is usually viewed as an important determinant of an economy’s ability to make adjustments to its productive structure as and when necessitated by exogenous events with minimum damage to output and to employment. The crucial point here is that the adjustments are required as responses to exogenous events. This suggests a linkage between the relevance of labour market flexibility and globalization process”.<sup>13</sup> He further notes that labour market flexibility is relevant for the Indian economy because of the urged to integrate the Indian economy into the global economy. He notes that, “around 92 percent of the Indian workers work in the unorganized sector of the economy where neither regulations nor trade unions interventions are relevant. Employment in this sector is generally irregular which by itself means that employment flexibility and job flexibility are there. As for the wage rate, while a norm for the minimum wage rate usually exists, both real and product wage rates are flexible ... The only government regulation that in principle applies to this sector is the regulation concerning minimum wage. There is no general national minimum wage ... Institutional interventions are important in the organized sector .... The fact that this sector employs is only about 8 percent of workers might be interpreted to mean that even if rigidities in this sector, they are of little consequence as for the economy as a whole is concerned. But this would be wrong. The sector’s importance for the Indian economy is far greater than is suggested by its employment share .... It is also the sector which will be most effected by the globalization as it has hitherto been the most protected sector. In the wage determination process in the organized sector the government plays the most important role but more through pressures on the government than through collective bargaining .... There is a system of bonus payment, but it is not really a profit sharing scheme. There are statutory lower and upper limits to the ratio of bonus payment to wage payment and a firm has to make bonus payment even if it makes a loss. There are some statutorily imposed non wage costs of employment. These include sickness insurance, provident fund and a fund for retirement gratuity ... linked to wages ... the government has been much concerned with employment security. Regulations in this area require payment of 50 percent of the wage for 45 days in case of a lay-off; 30 days notice and payment of 15 days wages for every year of past service in case of retrenchment or closure ... many would argue that the costs imposed by the existing regulations on employers are rather low. These costs do not harm employment flexibility to any significant extent but the requirement that retrenchment or closures cannot be effected without the government permission, certainly makes employment inflexible”.<sup>14</sup>

Outsourcing is the other way of flexibilising the product process and labour market.

In this regard, K.V. Ramaswamy notes,

“the outsourcing of production workers, services, final product and components reflects the distancing strategies, particularly in the presence of dual labour markets, on the part of industrial firms to gain new margins flexibility in increasingly competitive markets. Greater outsourcing of labour intensive products could cause a

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<sup>13</sup>. Ghose, Ajit K., “Labour Market Flexibility and the Indian Economy”, *Indian Journal of Labour Economics*, Vol. 38, No. 1, 1995, p. 58.

<sup>14</sup>. *Ibid*, p.60-61.

decline in formal well paid employment. Outsourcing of products, services and labour have been widely practiced by Indian industrial firms long before the reform years. Segmented labour markets divided into formal and informal segments are supposed to be a major determinant of outsourcing of products as well as labour .... Greater domestic and import competition would bring about changes in corporate strategies in terms of increased product differentiation and niche markets. This would create greater scope for outsourcing by putting a premium on the ability to meet unanticipated demand. Industrial firms in an economy in transition to market oriented and global competition is likely to face greater technological uncertainty. Faced with technological uncertainty firms will avoid the risk of making large investments in soon to be obsolete technologies. Market liberalization can unleash forces that favour integrated production and reduce the scope for outsourcing. Relaxation of capacity restriction on large firms and technological upgradation of downstream firms are the two important factors. This would cause reduction of labour demand in up-stream firms and contribute to negative labour market outcomes”<sup>15</sup>.

It has been found that liberalization has resulted in the increasing use of contract labour especially in organized sector where earlier it was very low, in order to have flexible labour practice.

Jaya Prakash Pradhan observes, “Low technology industries are found to be major employers of contract workers in the Indian organized manufacturing sector. The industrial concentration of contract employment has increased between 1995-96 and 2001-02. The contractual system of labour is widely prevalent among the organized manufacturing industries. Indian manufacturing as a whole employed 27 contract workers for every 100 regular workers in 2001-02. Between 1995-96 and 2001-02 the ratio contract workers to regular workers has grown from 17.7 percent to 27.2 percent. The industry groups, such as tobacco product and manufacturing of meat, fish, fruit, vegetables and oils have, in particular, generated more jobs for contract workers than regular workers. Other important contact-labour-intensive industries are office, accounting and computing machinery, mill products, beverages, non-metallic mineral products and ships and boats. The increasing reliance of manufacturing on contractual employee arrangement maybe due to the labour restructuring process that Indian enterprises undertaken in response to an intense competition in the 1990s. Large enterprises in the organized sector realized that it is possible to achieve maximum competitiveness just relying on a relatively small core group of permanent or regular employees who will provide niche business functions covering technical, managerial, human resource and business leadership. This core group is supported by another group of temporary/contract workers who are employed to meet company’s changing demand for labour. This strategy helped Indian enterprises to have greater flexibility in dealing with labour in otherwise strict labour regulations existing in India. In addition, it has assisted them to substantially reduce their costs as contract workers generally have lower wages and are not eligible for medical, retirement and

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<sup>15</sup> Uchikawa, Shuji, *Labour Market and Institution in India 1990s and Beyond*, (New Delhi: Manohar Publishers and Distributors, 2003), p. 155-162.



other benefits that accrue to regular workers”.<sup>16</sup>

Due to its inherent policy of protecting the workers, organized public sector, on the one hand is plagued by the inefficiency and corruption, on the other hand it has closed its door for the new entrants of the workforce to enter this sector. This sector’s employment generation capacity has been decreasing, however, the private sector’s share in generating employment has increased but this growth is unable to decrease the effect of low rate of employment generation in the public sector. Public sector is now on the verge of closures and retrenchments affecting the large number of workers employed in these firms. “Organized sector employment grew relatively slowly at 1.20 percent per annum during the 1983-1994 period and has further slid down to only 0.53 per cent between 1994-1999. Since there is a general preference for jobs in the organized sector, this trend is of great concern.”<sup>17</sup>

Unorganized sector has now emerged as the source of employment generation, absorbing more than 90 per cent of the Indian workforce mostly unskilled or semi-skilled. With the flexibility and prevalence of the practice of hire and fire workers with ease has helped both employers and employees. “Though unorganized sector has provided much additional employment in recent years, this sector has been neglected by the policy makers. No special efforts have been made to promote its growth. Most of the workers and entrepreneurs in this sector operate at low economic levels and are not wanted by urban society. The Municipal authorities removes them very often from their places of work, their work places are demolished and goods confiscated”.<sup>18</sup>

Employment generation capacity of any organization depends on the external environment. Reformists strongly hold the view that since the economic growth in India has been very low, the employment generation capacity of different sectors has also remained low, thus faster economy growth is seen as the stimulator that would help in generating more employment opportunities for the labour force. They see a positive relation between economic growth and employment, however, recent trends do not support this view of positive relation between them. After adopting the economic reforms, the GDP has increased around 6 per cent per annum but the employment did not increase even at a half rate of GDP, in fact, for most of the sectors of the economy, employment stagnated to its earlier level or it has been increased.

Planning Commission’s Report on Labour & Employment provides relations between GDP & Employment “The relation between growth of GDP and growth of

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<sup>16</sup>. Pradhan, Jaya Prakash, “How do Trade, Foreign Investment and Technology Affect Employment Patterns in Organized Manufacturing”, *The Indian Journal of Labour Economics*, Vol. 49, No.2, 2006, p. 250-254

<sup>17</sup>. *Report of National Commission on Labour 2002-1991-1961*, (New Delhi: Academic Foundation, 2003), p. 202

<sup>18</sup>. *Ibid*, p. 206

is usually characterized by a summary parameter, such as the elasticity of employment with respect to GDP. The elasticity of employment indicates the percentage growth in total employment (or sectors employment) to be expected from a one percent growth in GDP (or GDP in individual sector) .... Since labour is an input into production, an increase in output is normally associated with an increase in labour use or employment, which implies that elasticity of employment, is generally expected to be positive. However, employment elasticities are typically expected to be less than unity because productivity per person employed is expected to increase over time which implies employment increases proportionally less than output. Since productivity per person is an important determinant of wage rate and therefore the quality of employment, it is important to recognize that high employment elasticities are not necessarily the best way of achieving employment objectives .... The employment elasticity for the economy as a whole was 0.53 percent in the period 1977-78 to 1983 and this declined to 0.14 per cent in the period 1983 to 1993-1994. It then declined very sharply to 0.15 in the period 1993-94 to 1999-2000 .... The low employment elasticity in the 1990s reflects the fact that employment growth decelerated in this period while GDP growth accelerated .... Much of the slow down in total employment growth was due to developments in the two important sector viz. agriculture (including Forestry and Fishing) and community, social and personal services. These sectors accounting for almost 70 percent of total employment, experienced no growth in employment in the period 1993-94 to 1999-2000 ... Employment growth in manufacturing also slowed down reflecting a continuing decline in the employment elasticity from 0.33 in the period 1983 to 1993-94 to 0.26 in the period 1993-94 to 1999-2000 .... In transport and communication, the elasticity of employment actually increased”.<sup>19</sup>

Another issue that should be looked into while discussing the employment scenario in India is the workers’ participation in the management. It was hoped that after liberalization, there would be more workers participation in the management for smooth relations between employers and employees, which would result in the industrial democracy without the presence of trade unions, which are often seen as the wings of different political parties, busy in settling the political or personal rivalries. Though there has been visible decline in the presence and power of trade unions, the dream of workers participation in management is still a dream.

Hem Lata Swarup and Pam Rajput observe the rise in the personalized relationships in employment, “Employers in core production units would not employ their workers directly. Rather a chain of intermediaries consisting of contractors, sub-contractors, traders and the like who would deal with individual workers separately. Personalized relationships would become more important than in the past”.<sup>20</sup>

Indian economy and its labour force have seen many assurances given in this direction where every government shows its keen interest in changing this dream into

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<sup>19</sup> *Planning Commission Report on Labour and Employment*, (New Delhi: Academic Foundation , 2002), p. 70-72.

<sup>20</sup> Swarup, Hem Lata and Pam Rajput (eds.), *Women and Globalization Reflections, Options and Strategies*, (New Delhi: Ashish Publishing House), p. 252.

a reality, yet nothing has been achieved in reality inspite of many conferences and committees.

The demand of workers participation in management, as has been observed in the report of National Commission on labour, had been raised before independence in the shape of demand for joint committees.

“The Royal Commission on labour (1929-31) had said that we believe that if these committees are given proper encouragement and the past errors are avoided, they can play a useful role in the Indian industrial system ... The Industrial Disputes Act provides that the appropriate government may require employers employing 100 or more workers in any industrial establishment to constitute Works Committees consisting of total number of members not exceeding 20, and that the number of representatives of workers should not be less than that of employers. The functions assigned to these committees were to promote measures for securing and preserving amity and good relations between employer and workmen .... 17<sup>th</sup> Session of Indian Labour Conference held in 1959 discussed the functions which could be assigned to these Work Committees, such as, conditions of work, ventilation, lighting, drinking water, canteen, safety and accident prevention, occupation diseases, adjustment of festival and national holidays, administration of welfare and funds, educational and recreational activities, promotion of thrift and savings. The conference also laid down the issues with which works committees should not normally deal, such as, wages and allowances, bonus and profit sharing schemes, rationalization matters connected with the fixation of the standard labour force, programmes of planning and development, retrenchment and lay-off, matters of victimization, provident fund, gratuity schemes, quantum of leave and national and festival holidays, incentive schemes, housing and transport ... National Commission on labour (1966-69), observed that there as not much support for institutions of the Joint Management Councils. It said that when the system of recognition of trade unions becomes an accepted practice, both management and unions would themselves gravitate towards greater cooperation .... The main function of councils may include provision of means of communication, improvement of working and living conditions and improvement in productivity. It would be desirable to consult the Councils in mattes like alteration in standing orders, retrenchment, rationalization, closure, reduction in cessation of operations and introduction of new methods ... The 8<sup>th</sup> plan emphasized that participation in management was a means of achieving industrial democracy. There is a need for introducing workers participation in management by law as many voluntary efforts made since independence had fallen short of the expectations ... There is no evidence to show that workers participation in management has in any way weakened an enterprises financially or otherwise. In fact, there is overwhelming evidence to suggest that wherever the system has been introduced, the enterprises and the economy as a whole have shown tremendous growth (example: workers participation in management set up in various countries, like, Germany and Japan, have benefited a lot). Workers and management have to join together not only to sort out their day to day problems, but build up confidence in each other, improve work culture, ensure the introduction of new technology, improve production processes, achieve production targets, smoothen retrenchment and welcome introduction of new technologies to the

enterprises capable of standing upto the global competition”.<sup>21</sup>

Till date, workers participation in management in India has been left to the trade unions only, which is not satisfactory, when we note that these trade unions do not represent the workers in trust completely, these unions also do not enjoy the majority support of the workers as there is no provision of elections to the trade unions in which workers can vote for their representatives. “Unions oppose the use of machines to replace workers. They raise wages and induce employers to substitute machines for men. Some times a factory become and arena for setting inter-union and intra-union rivalries .... To escape from such turmoil employers prefer capital intensive technology to labour intensive ones though the later would be more suited to the factor endowments of the country .... union absence is more conducive to growth of total and manual employment than the union presence ... The fact that collective bargaining and statutory regulation have out priced permanent labour is often evidenced by the growth of flexible labour”.<sup>22</sup>

This will certainly not help in strengthening the demand for workers participation in management as there has arisen a large gap between workers and management because of the practice of production outsourcing, home based work, contract workers.

Liberalisation has brought down the ‘labour militancy’, which at one point of time bought the Indian economy to a standstill with regular strikes. Man days lost due to strikes was very high. All this happened because of the strong presence of the trade unions with unconditional support of the governments to their demands. However, liberalizing the Indian economy has brought changes, as the trade unions are loosing their hold in industries and there has been a constant fear of hire and fire. This has resulted in low rate of strikes, but the man days lost due to the lockouts have increased. It shows that the relation between an employer and employees has changed in favour of employers, rendering the employees at the mercy of their employers.

Economic reforms were seen as the means to achieve the structural changes in the employment structure of Indian workforce for their betterment. It was hoped at the time of adopting liberalization policy that majority of the workforce which is engaged in the primary sector with very low productivity, will be able to join employment in

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<sup>21</sup>. *Report of National Commission on Labour 2002-1991-1961*, (New Delhi: Academic Foundation, 2003), p. 190-199.

<sup>22</sup>. Deshpande, L.K., Alakh N. Sharma, Anup K. Karan, Sandip Sarkar,(eds.),*Liberalisation and Labour, Labour Flexibility in Indian Manufacturing*, (New Delhi: Institute for Human Development, 2004), p. 78-80.

other sectors hopefully in the secondary and tertiary sectors. But on the contrary, the work of Seema Joshi suggests that this change in India has been rather slow.

“The sectoral distribution of the workforce in India during the period 1983-2000 reveals that structural changes in terms of employment have been slow in India as the primary sector continued to absorb 60.4 percent of total workforce even in 1999-2000, followed by the tertiary and industrial sectors (22.7 percent and 16.8 percent respectively). There has been disproportionate growth in the tertiary sector, as its share in employment has been lower as compared to its contribution to GDP ... the primary and tertiary sectors witnessed deceleration in growth rates of employment during the post liberalization period (1994-2000). In case of the later, it was mainly due to the sharp deceleration in employment growth in community, social and personal services to 0.55 percent in the post liberalization period as against 2.90 percent in the pre-liberalization decade. However, the overall growth rate of secondary sector improved from 2.90 percent in the pre-liberalization decade because of the combined effect of the valid growth of the manufacturing and construction sectors (Datt 2002) ... In the pre-reform period the primary sector was the main source of additional employment (55.5 percent) followed by the tertiary sector and secondary sector (30.2 percent and 19.5 percent respectively) ... during the post reform period the tertiary sector accounted for 73.2 per cent of additional employment generated followed by the secondary sector (50.4 percent) ... a sharp drop in the labour absorptive capacity of growth in the economy (employment elasticity of growth) during the post reform period reflected the phenomenon of jobless growth. With the exception of some sub-sectors of the tertiary sector, i.e. transport, storage, communication and finance, insurance, real estate and business services, all other sub-sectors exhibited a declining trend in employment elasticities, and thereby overall elasticity of employment declined from 0.62 to 0.16 percent”.<sup>23</sup>

Planning Commission’s report on labour and employment provides the employment elasticity of the organized sector, “Much of the concern about the lack of employment opportunities reflect a strong preference for employment in the organized sector, which usually refers to employment in the government and in establishments employing more than 10 persons. These jobs typically provide much higher levels of wages than the unorganized sector and also provide much greater job security and other benefits. In case of government employment the wage rates for the lower skilled categories are significantly higher than could be earned even in the private organized sector for similar level of skills and the level of job security is virtually infinite .... The size of the organized sector in our economy relative is small and the scope for expansion of employment in this sector is therefore relatively limited.... Organized sector in 1999 is only 28.11million or about 7 percent of the total employment of over 397 million in the economy. Further more, as much as 19.41 million, or over two thirds of total organized sector employment is in the public sector ... One reason why the share of the organized sector in total employment is relatively small is the predominance of agriculture which provides almost no organized sector employment ... In the manufacturing sector, for example, it is as low as 14 per cent indicating that as much as 86 per cent of the employment generated in manufacturing

<sup>23</sup> Joshi, Seema, “Tertiary Sector – Driven Growth in India”, *Economic and Political Weekly*, September 11, 2004, p. 4175-4176.

is in the unorganized sector, i.e. Handlooms .... Organized sector employment grew relatively slowly at 1.20 percent per annum during the 1983 -84 but then slowed down further to 0.53 percent between 1994-1999. This is certainly a matter of concern given the strong preference for the organized sector jobs. However, it is important to note that the deceleration was entirely due to the slowing down in employment in the public sector from a growth rate of 1.52 percent per year between 1983 and 1994 to a negative growth of (-) 0.03 percent per year during 1994-1999. The trend in the organized private sector was the reverse. It grew by only 0.45 percent per year between 1983 and 1994, but then accelerated to 1.87 percent per year between 1994 and 1999. The faster growth in private sector employment did not off-set the effect of slow down in public sector employment in the organized sector because the private sector share of employment in the organized sector was only one third .... Both the central and state governments are burdened with excess staff and both face severe financial constraints which will force measures to reduce the size of government. The Central Government has already declared that it plans to reduce the total size of government employment by about 2 percent per year over the next five years. Employment in the public sector enterprises is also unlikely to expand rapidly as most of public sector undertakings are seriously overmanned. In fact, their survival in the more competitive environment they face today, which will only become more competitive in future, depends upon their being able to trim excess labour ... Rapid growth in the organized sector employment in future, therefore, depends crucially on employment growth in the private sector. The experience of the 1990s does show faster growth in the organized sector employment in the private sector and this is reassuring”.<sup>24</sup>

Jeemol Unni notes that “ employment growth was low and declining in the organized sector ... The rapid growth in output, together with low and declining growth of employment led to a large growth in labour productivity in the organized sector ... In the unorganized sector, however, employment grew at more than 3 percent ... though at declining rate after the introduction of reforms”.<sup>25</sup> The author gives the picture of growth in employment in the organized sector dividing broadly it in manufacturing, trade, hotel and restaurants and community, social and personal services. “ In the initial years of planning the organized manufacturing sector was mainly producing basic intermediate goods and machinery as part of the plan to concentrate on heavy industries ... more than half of the growth between 1990-1 and 1997-8 was accounted for by consumer durables ... the strategy of economic reforms in the nineties was crucially dependent on export growth ... Significant growth in employment during 1990-1 to 1997-8 was experienced in textile garments, industrial organic and inorganic chemical and plastic products. According to another study, the gainers in employment growth in the reforms period were chemical industries, textile garments and food products ... Labour productivity could increase due to increase in capital productivity ... the industrial base in organized manufacturing became shallower with growth of consumer durables, the employment situation got worse and labour intensity decreased progressively from 1990-1 to 1997-8 and labour productivity stagnated since 1995-6. The organized manufacturing also saw

<sup>24</sup> *Planning Commission Report on Labour and Employment*, (New Delhi: Academic Foundation, 2002), p. 57-61.

<sup>25</sup> Uchikawa, Shuji, *Labour Market and Institution in India 1990s and Beyond*, (New Delhi: Manohar Publishers and Distributors, 2003), p. 72.

re-organization in terms of size, with the very large units (above 1000 workers) declining and growth of the middle and small-sized units. Goldar observed a small acceleration in employment growth in organized manufacturing during the reforms period due to increase in employment in small and medium-sized private sector factories, which he attributed to liberalization of industrial and trade policies. The rate of growth of employment was relatively higher in the unorganized manufacturing sector though there was a small decline in growth in the reforms period and labour productivity rose sharply .... Further, there is a decline in the traditional activities, such as Handicrafts and Artisan based industry. It has been shown that the loss of jobs has been mainly in the traditional industries, such as, food, beverages, textiles, wood and leather products. The modern industries, such as, electronics and chemical based industries, recorded a net increase in employment during the most recent and difficult period for unorganized manufacturing (Bhalla 2001) ... Some of the production processes in the organized sector are shifted to unorganized sector. This is mainly done through sub-contracting arrangement. This helps to raise the productivity levels of the unorganized sector and bring it closer to the organized”.<sup>26</sup>

In this regard, C.P. Chandrasekhar and Jayati Gosh provide the data for decreasing employment generating power of manufacturing in public and private sector. They note, “Restructuring of the public sector has meant that public sector manufacturing which was rising during 1980s, was on decline during the years of liberalization and fell particularly sharply after 1997. Private organized manufacturing employment, which was stagnant during the 1980s, rose marginally during the early 1990s and particularly sharply during 1995-1997, after which it has declined to return to its mid-1990s level by 2003. In the event, aggregate,(public and private) organized manufacturing employment rose from 6.1 million in 1981 to 6.4 million in 1994 and 6.9 million in 1997 and then declined sharply to 6 million in 2003”.<sup>27</sup>

Jeemol Unni and Uma Rani provide the level of employment generation in the organized manufacturing sector in a phased manner. They observe that “during the partial liberalization period of 1984-90, value added in the organized sector grew at 7.2 percent with growth capital at 6 percent and employment at 0.65 percent ... despite the high growth in industrial output, employment grew very slowly in the organized sector ... The slow growth in the organized manufacturing sector was termed as the period of jobless growth (Nagraj 2000). In the organized sector, employment growth was comparatively higher in ‘Organic than in Inorganic industries’<sup>28</sup> ... The low absorption of labour in the organized sector was argued to be due to inappropriate technology choice or product composition (Mohan 1996). It was argued that Chemicals, Petrochemicals and related activities are process industries with vast potential for automation and application of electronic process control

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26. Ibid, p. 75-78.

27. Chandrasekhar, C.P. and Jayati Ghosh, “Recent Employment Trends in India and China: An Unfortunate Conversions”, *Indian Journal of Labour Economics*, Vol. 50, No. 3, 2007, p. 392-393.

28. Organic Industries include the traditional industries, cotton ginning, food products, tobacco products, textiles, wearing apparel, leather products, wood products, paper products and publishing printing. Inorganic Industries include the modern industries, coke, petroleum, chemical products, rubber products, other non-metals, basic metals, fabricated metals, machinery and equipment, office, accounting, electrical machinery, radio, television, medical precision, motor vehicles, other transport and other manufacturing industries.

equipment (Kelkar and Kumar 1990) and that labour productivity was the highest in these industries in the organized sector but not so in unorganized sector. However, the high productivity seems to be due to substitution of capital for labour in these industries, as the increase in capital intensity was not accompanied by an increase in capital productivity. This industry, while being skill intensive, was not labour absorbing, as the employment output elasticity for this industry growth was 0.20. The growth in the consumer goods industries, which was facilitated by the macro economic policies during this period ( effective rate of protection of consumer goods remained high), also reflected the modernization of consumption as a large number of consumer products embodied modern technological characteristics. There was a reliance on imported kits for most of these goods, which probably led to low generation of employment (Kelkar and Kumar 1990). The other reason could have been the change in the labour laws in the early 1980s, making labour adjustment in organized sector more difficult, which might have led to inappropriate technological choice and slow down in machinery industry in this period as the effective rates of protection declined”.<sup>29</sup> In the early 1990s, 1989-90 to 1994-95 with the adoption of complete liberalization of Indian economy, it was feared that it would immediately have adverse effect on the employment scenario. In this regard Jeemol Unni and Uma Rani note “contrary to expectations, with the opening up of economy, employment grew at 2.1 percent in the organized sector, and the growth was much higher in the Inorganic industries (2.3 percent). The absence of massive labour dislocation following the liberalization of the economy, as expected, was because the government postponed reforms that might have strong negative effects on employment. In the initial three years, 1992-93 to 1994-95, after the reforms were introduced, employment grew at 4 percent per annum in the organized sector. The acceleration in the employment growth, especially in the capital goods industry in the organized sector was due to the expansion in output and investment boom in response to industrial de-regulation and trade policy reforms (Forbes 2002, Goldar 2000). The organized manufacturing sector also saw re-organization in terms of size. Goldar (2000) also observed an increase in employment but he argued that this was not in large establishments, but in small and medium sized factories. The growth in employment in organized industries was observed in wearing apparel, rubber and plastic and other manufacturing industries ... A sharp growth in capital intensity in both organized and unorganized sector was observed. The positive growth in capital intensity was not accompanied by the rise in capital productivity in both the sectors, which again implied a substitution of capital for labour without any technological upgradation”.<sup>30</sup> This growth was not only stagnated but declined very sharply during 1994-95 to 2000-01. “The earlier period, which had a high growth rate in valued added in the organized sector, was led by an import led boom and it slowed down in this period to 6.9 percent along with employment (0.7 percent) and capital (12.1 per cent). Chandrasekhar and Ghosh (2002), commenting on the recession in the organized manufacturing industry since mid-1996, observed that liberalization per se is not enough to ensure high rates of growth of investment and productive activity, and that other strategies maybe necessary to encourage. Vaidyanathan (1995) also pointed out that though the policy regime changed under reforms, which de-regulated

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29. Unni, Jeemol and Uma Rani, “Unorganized and Organized Manufacturing in India”, *Economic and Political Weekly*, October 9, 2004, p. 4568.

30. Ibid, p. 4572.



and get rid of bureaucratic controls, the responsibility for necessary reforms was left to the states. The requirements for licenses, permits and inspections at the state and local level continued to be onerous, as the enterprises faced difficulties in procuring land, electricity and water-connections. Secondly there was a credit squeeze in 1996, based on quality of credit which also seemed to have dissuaded industrial procedures from plans to expand their production and import technology (Desai 2002). A credit policy based more on changes in interest rates would have been more responsive to market conditions. Instead the credit squeezed choked funds to industry and perhaps resulted in the prolonged recession ... Organized sector employment grew by only 0.7 percent during this period. This could be due to the public sector reforms, which were introduced during this period, and also due to the general slow down of the economy. Positive employment growth was observed in food products and beverages, wearing apparel, fur products, leather, paper and paper products, among the Organic industries. In the inorganic industries, employment grew only in fabricated metal products, medical and optical instruments, watches and clocks and motor vehicles. Employment elasticities in the organized sectors declined to 0.10 during this period ... In the unorganized sector, employment grew at 2.1 percent after registering a negative growth in earlier two periods”<sup>31</sup>

Shashanka Bhide and Kaliappa Kaliranjan wrote “Industry or more specifically manufacturing has been seen as a means of economic development in the country since independence. Moving people out of agriculture for better wages meant the need to develop a diversified and growing industrial sector. This expectation has not been entirely fulfilled for India ... In terms of employment manufacturing provides for about 11 per cent of total employment in the Indian economy ... The initial impact of economic reforms was to accelerate growth of the economy including industry. The real GDP growth was about 7 percent for three consecutive years of 1994-95, 1995-96 and 1996-97. Growth of manufacturing output (GDP real) rose by 10 percent during this three year period of high growth. However, since this period of accelerated growth, there was a slow down until the very recent pick up of growth in 2003-04. The decline in growth of output in the period 1997-98 to 2001-02 was greater for industry than for the economy as a whole ... A variety of factors were suggested by researchers as being responsible for the slow growth, some cyclical and some structural; global economic slowdown, high real interest rates, uncertainty for the domestic producers induced by increased import competition due to liberalization of the trade policies, inadequate reforms in labour policy and the small scale industry policy ... when the economic reforms began in the early 1990s, there were concerns relating to the expansion of employment opportunities as a consequence of these reforms. Fiscal compression, privatization and greater import competition were thought to restrain output and hence employment growth. These concerns come in the wake of a decade of accelerated industrial growth in 1980s but with stagnant employment in the organized sector of manufacturing ... the actual experience of the 1990s in the context of growth of employment in organized manufacturing was more positive. A number of recent studies point to the accelerated growth of employment in the organized sector of manufacturing in the 1990s as compared with the previous decade (Goldar 2000 and Tendulkar 2003). These studies also point out that after allowing for some other factors, such as, real wage growth and number of days

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<sup>31</sup>. Ibid, p. 4573-4574.

worked per worker (rather than total number of workers), the employment elasticity of output had not shown any decline in the 1980s. These studies suggest that economic reforms of the 1990s indeed had a positive impact on employment in manufacturing ... Goldar (2002) points to the employment enhancing impact of trade liberalization ... Manufacturing sector was seen as an instrument of economic development where more employment would be found for transferring surplus labour from agriculture over time. However, between 1961 and 1999, while employment share of agriculture and allied sectors declined from 75.9 percent to 60.4 percent, the share of manufacturing increased from 9.3 percent to only 11 percent. The other segments of the industry, namely, mining and quarrying, electricity, gas and water supply and construction absorbed an additional 6 percent of the share, and services absorbed the remaining 8 percent. Thus, manufacturing sector offered relatively slower growth of employment than the other non-agricultural sectors and also relative to its own output growth ... in the more recent period, growth of employment in manufacturing occurred in the private sector of the organized sector relative to the decline in the employment in the public sector and in the unorganized sector relative to the stagnation in the organized sector ... Data available for the organized sector from the Annual Survey of Industries for the period upto 1997-98 show an unmistakable acceleration in employment growth in the 1990s. Goldar (2000), for example, notes that employment growth in the ASI manufacturing sector was 0.53 percent per annum during 1980-90 and it was 2.69 percent per annum during 1990-97. These are clearly different trends when we compared the Sample Survey results for 1999-00 and the ASI results upto 1997-98, with former showing very little growth in the organized sector employment but the later showing an accelerated growth. We should note, however, that even in the Sample Survey results, there is an increase in the growth rate of employment ... The slow down in output growth of manufacturing since 1997-98, if only cyclical, would reverse when the demand conditions improves. But the more consistent pattern of declining intensity of labour use in manufacturing, however, indicates that the employment growth in manufacturing may not depend only on the recovery of the output growth. The two main factors that were identified in the past studies for reducing intensity of labour use in manufacturing were, rising real product wage rates, and more intensive use of existing labour force as reflected in the rise in the number of days of employment rather than number of workers ...reductions in labour intensity was the major factor that led to lower growth of employment.....The rise in labour productivity has not been matched by the rise in demand for manufacturing output so that aggregate employment increases.”<sup>32</sup>

R. Nagraj describes the broad dimensions of the job losses and explores the possible reasons for it. He notes,” In 1999-2000, organized manufacturing sector employed about eight million people – about three fourth of them ‘workers’ the rest were supervisors and Managers .... About four million workers employed in factories with hundred or more workers have job security under chapter V-B of the Industrial Disputes Act, 1947 .... However, the protection is not available to supervisors as they are considered as part of management ...there was practically no increase in employment during the 1980s – a period of job less growth. But the 1990s witnessed a boom for four years during 1992-1996 followed by a retrenchment. Between 1995-

<sup>32</sup>. Kaliranjan, Kaliappa and Shashanka Bhide, “Impact of Trade Liberalization on Employment in Indian Manufacturing, Evidence from the Organized Sector”, *Journal of Social and Economic Development*, Jan-June, 2004, Vol. VI, No. 1, p.2-11.

96 and 2001-02, 1.3 million employees (13 percent of workforce) lost their jobs. It is mostly workers who have lost over 1.1 million jobs (15%). But employment of supervisors increased more or less steadily, they too experiences job losses. Between 1980-81 and 2000-01, employment of workers increased by 4.3 percent (0.24 million), while that of supervisors rose up by 39 percent(0.55 million)... employment declined in 13 out of 17 major states, constituting close to 90 percent of the workforce.”<sup>33</sup>

While explaining the job loss trend in the organized sector the author gives reason to that as “Perhaps setting up of National Renewal Fund to finance mainly retrenchment of workers in public sector enterprises was a signal of the government’s tacit support for similar initiatives in the private sector. Although the labour laws remained the same, their enforcement was diluted or government ignored their evasion by employers. Introduction of information technology could also have contributed to workers displacement. In the initial years, these adjustments at the factory floor were not evident in the aggregate, as the output and investment boom during 1992-96 created sizeable new job opportunities. As the boom petered out, new job creation turned negative since retrenchments and lay-offs continued apace. Admittedly, some of the jobs shed are likely to have reappeared in the unorganized sector with growing sub-contracting of production and shedding of auxiliary services. Hence, in the aggregate, the extent of job losses may not be severe as it appears in the first instance ... Greater productivity per worker, the gains of which have accrued mainly to employers, since the real wages have remained stagnant. However, with increased competition in production market, some of these gains are likely to have been passed on to consumers in terms of lower prices or improved quality.”<sup>34</sup>

Apart from the manufacturing sector, organized sector has other employment generating activities with varying employment generation capacity. “Manufacturing, community, social and personal services, transport and communication, plantation and forestry have been the major employed generating activities in the public and private sectors. The share of plantation and forestry also declined from 7.26 percent in 1991 to 4.93 percent in 1999. On the other hand, the share of community and other services increased from 33.88 percent in 1991 to 40.88 per cent in 1999. The share of transport and communication also increased by about 3 percentage points during 1991-1999”.<sup>35</sup>

Regarding the level of employment and growth in Trade, Hotels and Restaurants, Jeemol Unni writes,” there was a quantum jump in the rate of growth of GDP in trade and hotel industry in the organized sector in the reforms period from 6.1 to 16.5 percent. Further, while the rate of growth of employment was minimal in both periods in the organized sector, there was rapid absorption of employment in the unorganized hotel and trade sector. The result was a sharp increase in labour productivity in the organized sector from 4.7 to 15.4 percent and a much smaller increase in the unorganized sector.

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33. R Nagraj, “Fall in Organized Manufacturing Employment”, *Economic and Political Weekly*, July 24, 2004, P. 3387.

34. Ibid, p.3388.

35. L.M. Bhole and P. Dash, “Employment-Unemployment in India”, *The Indian Journal of labour Economics*, Vol. 45, No. 2, 2002, p. 277-278.

Kuznets (1974; 95-6) pointed out that faster rise in the share of services sector as compared to share of manufacturing sector was only partly due to the small increase in the productivity of labour in several branches of services, but more due to the great secular increase in demand. This increase in turn was due partly to the structure of wants of ultimate consumers, in which the proportion of income spent on health, education, recreation and the like increase with a secular rise in income per capita, partly to changed conditions of life (urbanization) which increase the need for services; and partly to the demands of developing productive organization of commodity output for more transportation, communication, trade, finance and, not least, government services ... Modern retailing in the form of shopping complexes and multiplexes and the five and four stars hotel industry fuelled by the growth of tourism could explain this phenomenal growth in the organized sector”.<sup>36</sup> The author further notes that community, social and personal services saw a “ high growth of NDP in both the organized and unorganized sector. This sector however, did not absorb much labour ... In the organized sector, services in health and education have shown a large increase. This is also due to the rise in incomes and an increasing awareness of the need for better health and education in modern world. Further, part of the increase in incomes and productivity in the organized sector was due to the Fifth Pay Commission increase in incomes.”<sup>37</sup>

Another economic activity that generates employment in organized sector is banking. The reforms affecting the banking sector are based on Narasimahan Committee aiming to improve efficiency and transparency in banking sector. Before opening the banking sector for private and foreign players, State Bank of India and other Nationalized Banks dominated the Indian banking sector. The public sector banks and private & foreign banks are different from each other.

“The performance of the domestic private and foreign banks has been stronger than that of public sector banks. Many explanations have been advanced for this phenomenon ranging from them not having the burden of a large network of branches especially in low diversity business areas, such as, rural areas, they have been able to introduce technology to upgrade operational efficiency and their business strategy has concentrated more on high yielding free based activities and advisory services ... The profitability of the public sector banks was much lower than that of private sector banks and foreign banks ... The growth of employment in the new private banks was also significantly higher but this to be expected given that they were setting up operations and establishing their branches. Despite the faster growth in employment in the private banks they were able to achieve an even greater growth of turnover ... Amongst the commercial banks the employment growth rate from 1990-1 to 1994-5 was 1.21 percent and this declined to (-) 0.27 percent during 1995-6 to 1999-00 as they sought to downsize. The decline in employment growth was sharpest among the clerical staff followed by the subordinate staff. For the officers, the growth in

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36. Uchikawa, Shuji, *Labour Market and Institution in India 1990s and Beyond*, (New Delhi: Manohar Publishers and Distributors, 2003), p. 79-82.

37. Ibid, p. 82-83.

employment was 1.81 percent in the first half of the decade and this declined to 0.89 percent in the later half of the decade. For the clerical staff, the growth in employment was 0.80 percent in the first half the decade and this slipped to (-) 0.89 percent in the second half of the decade. The growth in the employment of subordinate staff also declined substantially from 1.41 percent in the first half of the decade to (-) 0.34 percent in the later half of 1990s ... For the SBI group and the nationalized banks the ratio of officers, clerical and subordinate staff to total staff did not show much variation during the decade. For the decade as a whole, for the SBI group, 25.4 percent of the staff was officers, 51.0 percent were clerks and 23.6 percent were subordinate staff. In the foreign banks and private sector banks, however, there has been growing recruitment amongst the officers' cadre with a decline in the recruitment of clerical and subordinate staff ... The especially noteworthy examples of the staffing pattern tilting in favour of officers is amongst the new private banks – HDFC Bank, Global Trust Bank, UTI Bank, IDBI Bank, for instance, have no clerical and subordinate staff and 100 percent of the staff in these banks are officers. This is a manifestation of these banks resorting to technology the operation of which require high-skill human capital for increasing the return to the technology which anyway enables the routine tasks formerly undertaken by lower level staff to be speedily processed. Also the presence of only officers is indicative of multitasking which promotes flexibility in the bank and ensures long term profitability ... there is relative rigidity in the composition of the workforce in the public sector banks ... In terms of staffing the public sector banks are admitted to employment security and have a full time workforce... ”<sup>38</sup>

From the above given information, it has become clear that the organized sector under the influence of liberalization policy, has not been able to generate much employment for the increasing labour force, considering the level of preference this sector gets. Its most important sector, that is, manufacturing failed to generate the much needed employment for millions of people, employment level has not only been stagnant but there is low level of new recruitment in this sector. It has also laid off and retrenched its workers as many of the industries have become sick and unviable to run. Trade, hotels and restaurants and community, social and personal services have helped in increasing the employment opportunities in the organized sector. But the question to be asked here is that whether this tertiary sector led growth is sustainable?

Seema Joshi while dealing with the question of the impact of tertiary sector in growth of India writes, “the analysis of the sectoral, composition of GDP and employment for the period of 1950-2000 brings out the fact that during the process of economic development in India, as has been observed across various countries by Kuznets (1966), a growing tertiarisation of the structure of production and employment has been taking place ... The tertiary sector emerged as the major sector of the economy in terms of growth rates and share in GDP in the 1990s. The service sector comprises a wide spectrum of low productive activities (mainly in the informal sector like repair

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38. Ibid, p. 96-105.

and maintenance services, transport, shoe-shine, cobblers, hawkers, personal services like hair-dresser, washerman etc.) and high productive activities (mainly professional, legal etc.) or new services like software, information technology (IT), IT enabled services (like call centres, design, business process out sources), Cellular phone services (Telecommunication), ATM and Credit Cards etc.(financial services) as well. As has been revealed in the Report of Special Group on Employment Generation 2002, in 1999-2000 only 8.39 percent of the total labour force was employed in the organized sector and the remaining 91.66 percent was absorbed in the unorganized sector. Mitra's (1994) study shows in around 70 percent of the class-I cities, i.e. each with the population of 1,00,000 and above, tertiary activities accounted for more than 60 percent of the informal sector ... The rapid growth of IT ensures better job prospects for India's educated youth. As per a NASSCOM-MC Kinsey report (1999), IT enabled services alone could create 11 million jobs and generate a revenue of US\$ 17-18 billion by the year 2008. However, knowledge –intensive economy-driven by IT requires educated and capable people with high productive capacities to exploit the vast opportunities being offered by the service revolution in the current era of globalization ... various demand constraints (no demand from other sectors) and supply constraints (input supply to the other sectors). Former President Dr. Abdul Kalam and Y.S. Rajan (1998) highlighting the complementarities of the three sectors of the economy as a country like India cannot hope to build its future on the service sector alone though it can be and will be a major component of the economy. India cannot afford not to build its strength in agriculture for reasons of food and nutritional security. Nor can afford to ignore manufacturing strengths for reasons of economic and national security. Based on the strength of these two sectors, it can build a major economic infrastructure for the services and used it to generate great wealth and employment for her people.”<sup>39</sup>

India is still facing the problem of illiterate workforce where women are more illiterate than men, even for the workforce who are considered as literate, there is very low level of education, hardly upto secondary level. Those who are educated do not have the required training to facilitate them in getting job in the newly emerging sectors of the economy. One major issue in this matter is whether the family is able to spend money and time to impart high level of education and training even if there is the availability of opportunity to receive education and getting jobs.

Liberalization has affected every sector of the economy, on unequal basis, there is rapid growth in some industries while some other industries faced the low rate of growth and even others are forced to shut their production because of the changed

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<sup>39</sup>. Joshi, Seema, “Tertiary Sector – Driven Growth in India”, *Economic and Political Weekly*, September 11, 2004, p.4175-4176.

circumstances. After seeing the impact of liberalization on employment level with much emphasis on the organized sector, this paper will further look into the impact of liberalization on the availability of employment opportunities to the women workers.

Gurushri Swamy while providing an insight into the impact of international trade openness on the job or employment opportunities for women notes, "The effect of the trade on women and gender is a matter of some debate. Those who see the positive benefits point to the huge expansion in wage employment of women in export industries in developing countries. On the other hand, several women's groups and researches say that research for greater flexibility and lower cost as firms compete in the global economy has led to the exploitation of cheap female labour in developing countries, with no increase in their welfare ... The evidence on job creation for women is clearly positive. Trade typically results in expansion of labour intensive export from developing countries, often the poorest ones. Production of many of these export require manual dexterity and stamina but not great physical strength. Export firms have employed large number of women in such industries and the growth of exports, such as, garments, shoes, jewellery and electronics has almost always resulted in a significant increase in female wage employment in the formal sector ... Women employed in the export manufacturing factories typically earn more than they did in the informal sectors ... Several studies have shown that when woman earn cash income, their status and bargaining power in the family improves... As a rule, female workers earn less than male workers about 23 percent less in developed countries and 27 percent less in developing countries (World Bank -2001). The difference is due to worker characteristics, such as, education, skill and experience as well as other factors, such as occupational differences and gender wage discrimination. They suggest that one favourable effect maybe reduction in wage discrimination against women. Prior to trade liberalization, producers can use the rents (or extra profits) that they obtain because of trade protection to pay men a premium. Trade creates greater competition and puts pressure on firms to cut costs and thus creates gender equality of wages. On the other hand, trade may widen the gender wage gap for several reasons. First, export expansion may induce a large influx of unskilled women workers into the wage labour force. In contrast men's labour supply is likely to be more inelastic since most of them are already in the wage labour market. Consequently, even a small increase in demand may raise wages because supply does not increase as much. Over time the gender wage gap may consequently increase. Second, trade often puts premium on skills.... Skilled workers are typically scarce in developing countries, their wage may increase more than the wages of unskilled workers, widening the skill gap. Since the average man has a higher level of skill than the average woman does, the gender wage gap may increase .... Third, because women are unskilled relative to men, they are more likely to be employed as temporary workers, while men are likely to hold skilled and permanent positions. Female workers consequently have a higher rate of turnover and relocation, and, less ability to negotiate wages and an increase in the gender wage gap. Women may also prefer temporary, part-time or home based work because they can blend wage work into their household responsibilities."<sup>40</sup>

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<sup>40</sup> Swami, Gurushri, "International Trade and Women", *Economic and Political Weekly*, November 6, 2004, p. 4885-4886.

In India, women perform both types of productive works, namely, unpaid work while fulfilling their social responsibilities and gainful employment as self-employed, wage earners and regular employees in the organized and unorganized sector of the economy. It was hoped that the liberalization would result in more female work participation and there would be changes in the employment structure for women. Liberalization does bring women out of their homes and put them in the gender biased labour market tilted towards men and skills, in the form of feminization of work, though women remained low skilled and less paid. Women being low skilled, less educated and with no experience often ends up working in the informal sector without any job security and other benefits. Married women have higher level of job insecurity especially the child birth.

Women workforce is an integral part of total workforce in India. “On 31<sup>st</sup> March, 2004, women constituted 19 percent of the total workforce. The participation of women in the labour force has always been lower than that of men, in rural as well as urban areas. The work participation rate of women has increased significantly. In 1981, work participation rate for women was only 19.67 percent which increased upto 22.73 percent in 1991 and 26.68 percent in 2001. In the women workforce, women from rural areas are greater in number as compared to the urban women. Amongst rural women workers, a majority is employed in agriculture and some are employed in cottage industries. In the urban areas, women workers are primarily employed in the unorganized sector. As on 31<sup>st</sup> March, 2005, total number of 50.16 lacs women employees was engaged in the organized sector, out of which 29.21 lacs (58 percent) in the public sector and 20.95 lacs (42 percent) in the private sector. Employment of women in public sector increased by 1.1 percent and by 2.5 percent in the private sector during 2004-2005”.<sup>41</sup>

Sudha Deshpande notes, “The firms increasingly preferred employing flexible labour which could be disposed off without being obliged to pay non-wage benefits since the kind of labour was not permanent or regular. The policy led to increased use of casual, temporary and contract labour. Female labour being cheaper than male labour, women were increasingly absorbed as either non permanent or contract workers in manufacturing over the eighties. This set in a process of feminization of the workforce in the country. Macro level data from 1981 and 1991 census and the quinquennial employment – unemployment survey rounds of the National Sample Survey Organization lend support to feminization of economic activity in the 1980s in urban India ... The structural adjustment policy package entails deflation, devaluation, deregulation and decentralization. All these measures are likely to affect the volume and nature of employment in urban India ... Deflationary policies may force many poor women in urban India to fend for themselves as self employed in the labour market. Devaluation with trade liberalization could be expected to increase

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<sup>41</sup>. Industrial Relations – Women Employment (source: Internet, downloaded on 19.5.2010).



demand for female labour in the export industries, but the kind of employment offered would be both, insecure and low paid. Most importantly, women are likely to be exposed to working conditions that are hazardous to their health. Deregulation and decentralization of domestic industrial production together would create flexible female labour, which is intermittently employed, mostly on low wages ... Given the low levels of education of the workers, with limited options left, women will be forced to accept either the precarious jobs which the labour markets offer or be tied down to jobs which permit them to combine house works with work.”<sup>42</sup>

It has been observed that such kinds of jobs “create insecurity of income and employment and expose women to many forms of abuse ... its extend is likely to increase in future ... Jobs which are likely to be offered to the women who enter the labour market ... are likely to have short time horizons or would be non permanent in status, they could be temporary, casual or contract jobs ... would be irregular ... insecurity of income ... women would have no control either over their working conditions or their wages ... as all these factor would be controlled by others, like employers ... jobs would not only lie outside the purview of labour legislation but also would not enjoy the protection of family, community or caste which women could get as helpers ... women working on wages either in small manufacturing units in the export or domestic sector outside their houses or others who get work at home on piece rate would find that their dependence on middle men like contractors/jobbers would increase. This is inevitable because production would no more be carried out under one roof”<sup>43</sup>.

As we know that organized sector provides stable income, job security and other benefits, it is important to look into the position of women in the much sought after sector in comparison to the unorganized sector. Going by the data provided by census, it becomes clear that the feminization of labour has not taken place in the organized sector. “According to 1991 census men share 86 percent of the employment in the organized sector, while women share only 14 percent. The other interesting fact is that women claim a larger percentage at 29 percent of the employment share in the unorganized sector in 1991 than their share in the organized sector ... Women employment in the public sector went up from 14.99 lacs in 1981 to 24.77 lacs in 1993, whereas in the private sector it rose from 12.94 lacs to 15.50 lacs in the corresponding period. Thus, while the public sector offers more employment to women as compared to the private sector, the later employs more number of women than the former in agriculture, manufacturing, trade, community, social and personal services. Over a period of time, women’s employment in public sector (65.27%) has been rising faster than in the private sector (19.74%). In the organized public sector the maximum number of women are employed in community, social and personal services, while in the private sector it is in manufacturing”<sup>44</sup>.

“Although women are entering the labour market in increasing number, their employment is concentrated in a relatively small number of female areas and occupations which tend to attract lower rewards and prestige. The growth in

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<sup>42</sup> Swarup, Hem Lata and Pam Rajput (eds.), *Women and Globalization Reflections, Options and Strategies*, (New Delhi: Ashish Publishing House), p. 236-240.

<sup>43</sup> Ibid, p. 236-248.

<sup>44</sup> Dr. Murty , S., (ed.), *Women and Employment*, (New Delhi: RBSA Publishers,2001), p. 5-7.

women's employment has not been matched by the quality of the majority of jobs they have access to ... Women's participation in employment is not only mediated by gender, but also by caste, ethnicity, age and marital status. Dalit and tribal women have significantly higher workforce participation rates than the rest of Indian women. In the upper caste and Muslim households women are withdrawn from the labour force as soon as their economic status improves. The export processing zones being promoted under the new economic policy, women's entry to the labour market also determined by age. Employers prefer to employ young single women. Marriage results in retrenchment because it is assumed that they cannot work for long hours, especially after child birth ... women also tend to get easily displaced by new technologies and are either pushed out or pushed down when job requirements call for skilled and trained persons".<sup>45</sup>

"In India, work participation rate of male (MWPR) has been falling since 1921, but female work participation rate (FWPR) after declining till 1971 has had gone on increasing and reached about 30 percent in 1995. This has led to propound the thesis of feminization of employment....It is significant to note that during 1981-96, the growth rate of employment in the organized sector was 1.39 percent out of which male employment rose by 1.12 percent per year, while female employment recorded a growth of 3.07 percent per year....Technology is not free from gender bias. The Central Institute of Agricultural Engineering, Bhopal, concedes that there is a gender bias in technology owing to the absence of female researchers and technicians to design and evaluate it. Farm technology in India is designed primarily for male operators. Small cultivating equipments are very few and still unpopular. It is an experience that women joined the organized sector in the large number when the public sector occupied the commanding heights of the economy. At that time women did not require much specialized qualifications. But with the reforms and changing face of the economy, the outlook for jobs has also changed. Either men or women increase their skills, qualification and competitiveness or they may be thrown out by the waves of change. In the post reform period women are trapped in a bind. On the one hand, with increasing pressure to effect cuts on higher education, professional and technical courses are becoming prohibited. On the other hand, in a traditional society, where a girl is considered as prayadhan, from the parent perspective it makes little economic sense to spend large sums on her education. This modernization and traditional, all appear to be loaded against women".<sup>46</sup>

"Given the labour market conditions and the existing socio-economic environment, most of the women workforce is in the informal sector. The women labour force in the informal sector is characterized by a high incidence of casual labour mostly doing intermitted jobs at extremely low wages or is doing their own account work at very uneconomical returns. There is a total lack of job security and social security benefits. The areas of exploitation are long hours, unsatisfactory work conditions and occupational health hazardous. The organized sector takes advantages of this vulnerable position of labour force in the informal sector. Large industries now find it advantageous to decentralize their production units of larger registered units ... The labour market is not neutral to men and women. It favours men against

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<sup>45</sup>. Ibid, p. 52-54.

<sup>46</sup>. Ibid, p.85-86 and 92.

women. Gender inequalities exist in almost all sectors. The division of labour is highly gender biased in urban informal sector. The discrimination is further manifested in male and female earnings. The operations that fetch higher returns are male preserves, whereas work of arduous nature bringing in lower return is done by women. The women are assigned unskilled and semi-skilled work. They are paid less even in skilled operations. In the urban informal sector some of the lowest paid occupations have a disproportionately high percentage of women. The invisibility is trust upon them by confining them to the so called subordinate roles. They are classed as weaker gender, confined to strenuous and monotonous work ... The nature of work performed by working women in urban informal sector denies them the opportunities of organizing on work related issues... The argument used to suppress them was that fighting for women's equality within the union would internally divide the union and weaken it ....<sup>47</sup>

“It is expected that employers who increased their business would employ, proportionately to their manual employment, more women. In contrast the firms which increase the capital per worker would employ proportionately fewer women. The share of female labour is likely to be higher; the faster is the increase in unit labour cost. Unionized firms are expected to employ proportionately fewer women than non-unionized firms. It is expected that employers in traditional lines of manufacture would employ more women as compared to modern manufacturing so would also larger than smaller firms. Since women are considered as flexible category we expect the firms employing proportionately more non permanent workers to employ proportionately more women workers ... employers hiring more contract workers to hire fewer women ... Women's share is likely to be higher if the firm belonged to textile products, chemicals and chemical products and basic metals and alloys ... The flexibilisation of labour market has also been associated with feminization of employment. It does not appear to hold in case of India as only 25 percent of the firms reported increase in female employment while others reported either no change or decline (during 1991-1998)”.<sup>48</sup>

Jaya Prakash Pradhan provides the industrial pattern of women employment in the Indian organized manufacturing from 1995-96 to 2001-02. She notes that women employment,” is characterized by a high degree of concentration. A few leading sectors, at 3 digit level of industrial classification, accounted for rather a disproportionately very high share of total women employment. The top three industries (out of a total of 37 industries) together make up for more than 70 percent of the total women employment in 2001-2002. These industries are food products (24 percent), tobacco products (23 percent) and wearing apparel (23 percent). Other chemical products with 8 percent and spinning, weaving, finishing of textiles with 7.6 percent of employment share are other industries contributing significantly to female employment. Majority of these women-employments -contributing industries are manufacturers of low technology products based on labour intensive production processes. The international market for these products is highly contested with competitiveness driven largely by low prices. Female workers with their low bargaining power seem to have provided a source of competitiveness for industries

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<sup>47</sup>. Ibid, p. 95-96.

<sup>48</sup>. Deshpande, L.K., Alakh N. Sharma, Anup K. Karan, Sandip Sarkar,(eds.),*Liberalisation and Labour, Labour Flexibility in Indian Manufacturing*, (New Delhi: Institute for Human Development, 2004), p. 98-101.

based in a labour abundant country, like India. Industrial concentration in female employment has increased since the late 1990s. Between 1995-96 and 2001-02 the employment share of top three women-employment-contributing industries has increased by 16 percentage point from 54 percent to 70 percent.”<sup>49</sup>

“As compared to women in the organized sector, the representation of men is almost six times more. About 56 percent of women in employment in the organized sector are in the community, social and personal services, 16 percent each in transport, storage and communication, financing, insurance, real estate and banking services ... Feminization of agricultural sector is another significant factor represents growing proportion of female labour force in it as compared to the industry or tertiary sectors. The rural female work participation rate has been stable at about 28 percent. It has been noted that women are increasingly assuming the status of agricultural labourers about 50 percent and males about 29 percent.”<sup>50</sup>

Madhura Swaminathan and Sharmila Majumdar dealt with the question of gender segregation of occupations. They write, “occupational segregation by gender refers to the inequality in the distribution of men and women across different occupational categories. In the 1990s with the accelerated implementation of policies of liberalization, there has been a debate on the possible impact of liberalization on the female labour force. It was argued that the policies of liberalization may lead to a rise in female employment and female labour force participation but deregulation of the labour market would affect the quality of employment generated (Deshpande, 1999). Contrary to expectations, there has been no big increase in female labour force participation rates during the 1990s. Indeed, the labour force participation rate for women was stagnant for most of the 1990s and declined towards the end of the decade (according to the data from National Sample Survey). The new work available to women tends to be low paid, part-time and intermittent work in the unorganized sector (Deshpande & Deshpande, 1998) ... Work participation rates fluctuated at around 15 percent in most survey years but showed a perceptible fall in the latest survey year, 1999-2000 to 13.9 percent .... An analysis by age shows that female work participation rates were quite low even in the prime working age groups, and declined across all age groups between 1993-94 and 1999-2000. For example, the female work participation rate in the age group of 38-44 years fell from 29.5 percent in 1993-94 to 26.6 percent in 1999-2000 ... In aggregate, the share of women in the total workforce declined slightly (mainly on account of a decline in the agricultural sector). Women’s share of non-agricultural workers, according to UN Statistics, is exceptionally low in India (16 percent) as compared to other countries (to illustrate, 22 percent in Bangladesh and 37.6 percent in Malaysia)... there was a tiny rise in the share of women in the non agricultural workforce over the preceding two decades, from 15.3 percent in 1983 to 15.8 percent in 1993-94 and 15.9 percent in 1999-2000. It is clear that feminization of the workforce has not occurred in India in the same way as in many other countries, developed and less developed. Women’s work participation in urban India has remained very low with a tendency to decline further in the 1990s.” They further provide the description of the occupations in which the presence of women workers is very strong and visible. “In terms of

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49. Pradhan, Jaya Prakash, “ How do Trade, Foreign Investment and Technology Affect Employment Patterns in Organized Manufacturing”, *The Indian Journal of Labour Economics* Vol. 49, No.2, 2006, p. 250-252.

50. Dr. Murty, S. (ed.), *Women and Employment*, (New Delhi: RBSA Publishers, 2001), p. 76-77.

numerical importance for women workers, the three most important occupations at the single digit level were production and related workers followed by service workers and professional and technical workers. These three occupations accounted for around 74 per cent of female workers in 1999 (down from 79 percent in 1983). Sales workers and clerical workers were next in importance. Only a small proportion of women workers were in administrative, executive and managerial occupations ... in 1999-2000 occupation, namely, maids and related housekeeping workers was female dominated. Further, there were three occupations in which women comprised between 50 and 80 percent of the workforce. These were tobacco preparers and tobacco product makers, nurses and other medical technicians and teachers. In 1999, one third of women workers were concentrated in these four occupations .... occupations such as nurses, maids and teachers are well recognized internationally as female occupations. Tobacco making, particularly bidi making, is of course, a specifically an Indian occupation undertaken predominantly by women (and children) and is generally a low paid and home based activity. Clerical occupations, such as, typists, book-keepers are not as important as elsewhere. While production workers, such as, weavers and spinners and bidi makers and labourers including general labourers, construction workers and sweepers have a greater weight in the female occupational structure. Thus, there is a relative predominance of unskilled work among women workers in India ... It is argued that within a given occupation /sector, there is a job pyramid and women tend to be assigned to jobs that require limited skills and education, that pay low wages with less scope for advancement ... We can observe some clear pattern of hierarchy even in occupations with a significant representation of women. Among tobacco preparers, for instance, there were no women supervisors and cigarette makers (who tend to be factory based). Women, however, formed 89 percent of home based bidi makers. Similarly, among the broad categories of nurses, a relatively small proportion of the workforce was female in the category of X-ray technicians (2.7 percent) as compared to nurses (89.4 percent). Among teachers, similar to patters elsewhere, 1999, 94 percent of pre-school teachers were female, whereas, only 32 percent of college and university teachers were females. Teachers is the single largest occupation for women workers in urban India ... Further, degree of segregation is lower for younger workers relative to older workers. This reflects wider occupational choice for younger women and specifically entry of younger women into typically male dominated occupations. Similarly, the degree of occupational segregation tends to fall with arise in the level of education of workers.”<sup>51</sup>

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<sup>51</sup>. Swaminathan, Madhura and Sharmila Majumdar, “Workers in Urban India: Changes in gender Segregation of Occupations, 1983-2000”, *The Indian Journal Labour Economics*, Vol. 49, No. 2, 2006, p. 278-285.

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## **CHAPTER-4.**

### **EMPLOYMENT TRENDS IN THE INFORMAL SECTOR: 1991-2005**

Indian economy's two sectors viz. Formal and Informal have their own independent yet linked effects of liberalization policy of Indian economy. Formal sector blossomed in highly protective environment before liberalizing the economy. It enjoyed the state's support and protection in form of reservations, subsidies and aids from government. Within this sector, trade unions not only flourished but enjoyed very strong hold on the entire sector and enjoyed the power of moulding the decision of government if taken against the interest of workers. Workers in the formal sector could be seen as the privileged one. They have their income secured, social security including provident fund, old age benefits, maternity benefits, medical benefits etc. Indian market was highly controlled by the formal sector with its either monopoly or oligopoly. This whole scenario changed with the introduction of full liberalization after 1990s. The formal sector after this recorded low growth rate and low labour absorptive capacity. Employment generation capacity not only stagnated, but it has declined to less than 1 percent. The Indian economy has other face termed as informal or unorganized sector. This sector has been there since the dualism of rural and urban economy. But this sector has not received its recognition. Earlier it was seen as one which would be merged with the formal economic sector as the industrialization and modernization will gain their momentum. It was seen as something undesirable and non permanent not only in India but worldwide. However, as the time passes out, everyone has realized that the informal sector is here to stay, with its own identity and share in the economy. This sector has survived without any sort of government support and protection in the era of formal sector superiority. After liberalization of the economy, when the formal sector is unable to hold the market, the informal sector has recorded new peaks of growth. One can observe the new opportunities that the informal sector has able to grab due to its inherent flexible labour policy, one of the strongly demanded criteria in the world of liberalization and globalization. Adding to this, the other advantage is the surplus of cheap labour that floods this sector year after year. This sector is now considered as the employment generating sector without around 90 percent of Indian working population working under its umbrella. Another important thing is that majority of women work force



find jobs in this sector. All this is due to the fact that the sector is not demanding highly qualified workers which are still very limited. It absorbs the workers with low level of skills and low level of education (even unskilled and illiterates find their place in this sector). Now, the policy makers have woken up and want to provide basic securities to this sector's workers and want to regulate this highly unregulated sector. But before that it is equally important to define the sector precisely as it is a very onerous task, because of its highly heterogeneous nature. With labour of different castes and religions and majority of the economic activities undertaken under this sector are highly invisible as it is operated inside the households of workers.

This chapter will look into the urban informal sector only though agriculture is the largest sub-sector of the informal sector in terms of providing employment to majority of Indian workforce. This chapter can be divided into three sections. First section will provide the nature of informal sector with different view points undertaken by different scholars. Second section will look into the employment scenario in the informal sector including women employment and their problems. Third section will look into the issue of social security policy for the informal sector.

### **INFORMAL SECTOR OF THE INDIAN ECONOMY:**

C.P. Thakur and C.S. Venkata Ratnam quoted Holmstrom who conceptualized the sharp dichotomy between the two sectors through the image of a citadel, "the organized, unorganized boundary is not a wall but a steep slope. Indian society is like a mountain, with the very rich at the top, lush alpine pastures where skilled workers in the biggest modern industries graze, a gradual slope down through smaller firms where pay and conditions are worse and legal security of employment means less, steep slope around the area where the Factories Act ceases to apply, a plateau where custom and market give poorly paid unorganized sector workers some minimal security, then a long slope down through casual migrant labour and petty services to destitutions. There are well defined paths up and down these slopes, which are easiest for certain kinds of people."<sup>1</sup>

Harjit S. Anand provides conceptual boundaries of the informal sector by looking at it from different perspectives. He writes,

"the concept of informal sector was first used by Keith Hart in a field study of urban workers in Ghana in 1971 for denoting the self employed sector which provides a

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<sup>1</sup> Thakur, C.P. and C.S. Venkata Ratnam, "Conditions of Work in the Unorganized Sector in India", *The Indian Journal of Labour Economics*, Vol. 50, No.4, 2004, p. 749-750.

source of income to many new entrants to the labour force who were unable to secure jobs in the organized or formal sector. The concept was first used in an official document of the ILO-UNDP with reference to their employment mission to Kenya in 1972.”<sup>2</sup> He further provides the key perspectives in order to better understand the informal sector. “From the perspective of urbanization, the informal sector results from the push and pull factors. In terms of the push factor, pressure of population on limited land in rural areas and consequently, high levels of unemployment, both open and disguised, leads to rural-urban migration. In terms of the pull factor, improved industrial and commercial infrastructure in cities and consequentially greater opportunities for employment attract the inflow of ruralities ... . The perspective relating to surplus agrarian labour, highlights the phenomenon of limited industrial entrepreneurs in the urban areas using the surplus labour available in the rural areas for generating economic surpluses for reinvestment by paying constant real wages at subsistence level to rural workers without loss of agrarian output. The perspective relating to legal recognition relates to the role of government in passing laws for defining the organized sector and as a consequence thereof, the informal sector as a residuary sector. The Indian Factories Act structured the counters of the organized sector in our country and the informal sector by implication. The perspective relating to economic stagnation views the growth of the informal sector as an outcome of periods of economic stagnation or recession. The recent East-Asia financial crisis led to the retrenchments and growth of casualization and consequently, the informal sector. The perspective of dualism refers to a limited industrial sector in urban areas and large labour surpluses in rural areas. It connotes the organization of economic activities at two levels, modern and feudal. The informal sector can also be explained by analyzing its roots in feudalist tradition and viewing it as an extension of the indebtedness and exploitation in the agrarian sector to the industrial domain. From technological perspective, the informal and formal sectors can be defined in relation to traditional and modern technologies as well as labour intensive and capital intensive technologies. From a demography and youth perspective the informal sector can be seen as the first stop for young, first sign entrants into the labour market especially in developing countries where open unemployment is limited since no substantive benefits are payable to the unemployed. From the perspective of compulsions of vulnerability, the informal sector can be viewed as the outcome of cumulative deprivations relating to low educational level, poor technical attainments, depleted living conditions, recurrent illness in the family, low income and uncertain availability of work.”<sup>3</sup>

Growth of the informal sector is viewed as two different processes namely, “involutionary process” and “evolutionary process”. In this regard A.S Oberai and G.K.Chadha write,

“According to involutionary view, the growth of the informal sector is seen as essentially pathological, fueled by the influx of migrants pushed out of the rural areas by lack of employment and income opportunities, highly unequal agrarian structure

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<sup>2</sup>. Anand, Harjit S., “Labour Policy and Employment in the Informal Sector”, cited in V.S. Jafa, (ed.), *Indian Labour and Employment Scenario in the 21<sup>st</sup> Century* (Delhi: New Century Publications,2001), p. 122-126

and labour saving technical change in agricultural production. This process is usually exacerbated by barriers to entry into the modern sector arising from the oligopolistic industrial structures, capital–market distortions, labour market segmentation and unfair employment practices. Informal sector growth does not therefore, reflect any normal response to economic incentives but is merely symptomatic of deep malaise in the economic structure and growth process ... evolutionary view focuses on the economic virtues of the informal sector. It is depicted as the system of production which is appropriate to the factor and resource endowments of a labour-surplus, low income country. It is also seen as a reservoir of entrepreneurship and innovativeness which uses resources efficiently and competitively and which would grow apace, given the right institutional and policy environment. According to this view, the growth of the informal sector can be promoted through a combination of policies, such as, the forging of regulatory linkages between it and the formal sector and the removal of regulatory restrictions and disincentives. These regulations either forbid particular activities or impose onerous regulatory conditions which increase start up and operating costs.”<sup>4</sup>

Jan Breeman writes, “Debates on the social transformation process that India has experienced since independence in 1947 were at first dominated by the concept of an economic dualism between village and town, which coincided with the distinction between agriculture and industry ... . The direct and on going emphasis in the debate on urban milieu appears to stem from an earlier conceptualization of dualism, namely, the contrast made between countryside and town or city, and the identification of rural economy with agriculture. In this line of thought, urban agglomerations are seen as the location of all other economic activities which are then divided into formal and informal sector employment. It was frequently stated that the later would act as an absorptive reservoir and a clearing house for the raw labour, undisciplined and untrained, coming from the countryside. He founds, “this type of interpretation has a number of drawbacks. For a start, why should the formal-informal distinction be restricted to urban labour? The concept loses some of its practical and policy relevance when it is not simultaneously applied to the rural economy, including agricultural employment”. He further observe that, “The lower income usually earned from informal sector jobs makes it far more difficult for both very young and old age members of rural households to ignore the need to contribute as much and as often as possible to family income. Such pressure does not alter the fact, however, that their involvement in the labour process is subjective to great discontinuity. That lack of consistency is due primarily to considerable seasonal fluctuations, not so much in the supply as in the demand for labour power in the informal sector.” He further notes that “No shifts of any magnitude appear to have occurred in the recent past in the ratio between formal and informal sector labour. This is remarkable in view of the repeatedly expressed opinion that the informal sector is meant to function as a waiting room for unskilled rural labour who manage to migrate to urban destinations. After a period of adjustment and skill formation, this first generation of workers would then somehow find their way upwards to the formal sector. The assumption that this superior sector of the labour system would gradually expand as an indicator of

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3. Ibid

4. Oberai, A.S and G.K.Chadha,(eds.), *Job Creation in Urban Informal Sector in India: Issues and Policy Options* (New Delhi: International Labour Organization, 2001), p. 31-32

modernization has been proven much too optimistic. ... There is a tendency to define informal sector employment primarily in terms of self-employment ... The fall in self-employment (as noted by Naidu, 1993; 16) and the stagnation even relative decline in formal working arrangements indicate the great and growing significance of wage dependency in informal sector employment. The excessive vulnerability of this category in general and the progressive marginalization of women in particular is not adequately expressed in government static's and other officials census"<sup>5</sup>

C.P. Thakur sees dualism within informal sector. The two sub-sectors, he notes have their own strengths and weaknesses. He writes that the informal sector can be divided into two categories, namely, "modern" and "traditional". "The units in the modern segment have a greater chance of sustainability as also a greater economic viability. In some cases, they are more efficient and complete, with full founded advantages, with the organized sector. Nonetheless, they do need better linkage with the later. On the other hand, the traditional component of the informal sector has more serious problems. They lack stability, and face high incidence of quick entry, sickness and demise and yet, they absorb the large number of workers, with lower wage and skills"<sup>6</sup>

He also provides the other three broad categories within the informal sector.

"Establishment based; foot loose; and home-based outfits. The first category includes manufacturing, repair shops, wholesale and retail trade, personal services and other non manufacturing services Activities under the second category are not so easy to identify, largely because they are non establishment based. They fall in the own account unit group, and most of them pay some kind of tax to local authorities. Their employees are largely transient in nature, and are not easily traceable. The last category, home based informal activities, is expanding. With employment and family work combine usually within the household premises, its visibility is indeed not so evident. An important feature of this component is that it is dominated by female family members. Their operation is pretty loose, their income is meager and they are totally dependent on fluctuating work orders from one or several sources."<sup>7</sup>

I.C. Awasthi, U.S. Bhandari and Gayatri Pandey based on the study undertaken by the Institute of Applied Manpower Research (IAMR) in six urban towns of five states; Borsad and Sidhpur in Gujarat, Deoria and Uttar Pradesh, Karnal in Haryana, Katni in Madhya Pradesh and Tumkur in Karnataka with the objective to understand the characteristics of employment and economic activities in its full perspectives under the informal sector. They observe,

" the frame of establishment has been divided into five strata, namely, Manufacturing, Repair Services, Wholesale and Retail Trade, Personal Services and other non-manufacturing establishments ... List of household engaged in home based

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<sup>5</sup>. Breeman, Jan, *Foot Loose Labour Working in India's Informal Economy* (Cambridge University Press, 1996) p.1-10

<sup>6</sup>. Thakur, C.P. , "Job Creation in the Urban Informal Sector: Agenda for Action by the Employers", in Oberai , A.S and G.K.Chadha, (eds.), *Job Creation in Urban Informal Sector in India: Issues and Policy Options* (New Delhi: International Labour Organization,2001) p. 458-459

activities is not readily available ... foot loose activities are not covered under the Shops and Commercial Establishment Act. However, it has been possible to estimate the magnitude of employment, as almost all the units there are own account units and a local tax (called Tehbazari) is being collected from each such unit on a day to day basis by the local municipality, notified urban authority or the panchayat as the case maybe ... Establishment based activities offers fairly good remuneration to its participants who were mostly unemployed before entering informal sector; it demands no significant education and experience background, in fact illiterates and totally inexperienced also can take up employment in the informal establishments; there is no age bar to enter informal sector for employment; there is also no bar with regard to residence status, although migrants have to put in little more efforts than residents to enter informal establishments for employment; informal sector establishments are capable of training its own participants and they do not depend on any other mode of skill development; it offers ample scope to hired workers - even from rural areas to ultimately become owners of establishments; skilled workers are relatively more among the hired workers than the family workers”<sup>8</sup>

It has been noted that the data on the informal sector is not readily available. The data on the informal sector comprises the units not covered by ASI (Annual Survey of Industries) or EMI (Employment Market Information) are collected neither regularly nor systematically. It is so because the cost of collecting and compiling basic information on the informal activities maybe considered as costly in comparison to immediate benefits accruing to the economy from these activities.

Amitabh Kundu writes, “One can define the informal sector, in a rather narrow sense, as comprising the enterprises carried out within the household, employing only family labour ... There are, however, other approaches that can be used for determining the size of the informal or unorganized activities directly at the macro level in a somewhat broad based manner ... The household – based activities as identified by the population census and the NSS or the OAEs (Own Account Enterprises) given by NSS and the economic census, maybe taken to comprise the informal sector; OAEs and NDEs (Non Directory Establishments) as defined by NSS and CSO (Central Statistical Organization), maybe taken to constitute this sector. Together, these would cover all units employing less than six workers; informal sector can be defined by combining DEs (Directory Establishments) with OAEs and NDEs, as given by NSS and CSO; Small Scale Industries may be taken as constituting the informal manufacturing sector as covered by Development Commissioner of Small Scale Industries.”<sup>9</sup>

Ruddar Datt cites the definition of the unorganized / informal sector given by the

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<sup>7</sup>. Ibid, p.457

<sup>8</sup>. Awasthi, I.C., U.S. Bhandari and Gayatri Pandey, “Characteristics of Informal Sector: Empirical Evidence”, in Ramanujam, M.S. I.C. Awasthi, Gayatri Pandey, (eds.), *Employment promotion in the Urban Informal Sector* (New Delhi: New Age International Ltd. 1999), p. 70-71

<sup>9</sup>. Kundu, Amitabh, “Informal Sector in India’s Urban Economy: Macro Trends and Policy Perspectives”, in Oberai, A.S and G.K.Chadha, (eds.), *Job Creation in Urban Informal Sector in India: Issues and Policy Options* (New Delhi : International Labour Organization, 2001), p. 70-71.

National Commission for Enterprises in the Unorganized Sector set by the government of India.

“The unorganized sector consists of all incorporated private enterprises owned by individuals or households engaged in the sale and production of goods and services operated on a proprietary or partnership bases and with less than ten total workers. Following this definition, in agriculture, only the plantations and other types of organized agriculture (that is, corporate or cooperative farming) are excluded. Thus, a very large part of the workers engaged in agriculture are included. ... Unorganized workers consist of those working in the unorganized enterprises or households, excluding regular workers with social security benefits and the workers in the formal sector without any employment/social security benefits provided by the employer. This definition excludes casual or contract workers and thus captures unorganized sector employment in a more realistic manner.”<sup>10</sup>

K.D. Gaur and J.L. Singh provide the key characteristics of urban informal sector activities, as,

“informal sector is a convenient way of designating a segment of the economy having certain characteristics which lead to unfavourable conditions for the growth of the enterprises and activities operating in this segment. It is sometime suggested that single worker establishments and those with only self-employed and own account workers form the core of informal sector .... the informal sector because of its limited access to resources and the freely competitive nature of its product and factor market is characterized by small scale operations. Because of small scale operations, mostly locally inputs are used. Small size of operations is considered a necessary condition for the inclusion of an enterprise in the informal sector, because smallness is usually accompanied by several other attributes which make certain enterprises disadvantaged. Informal sector enterprises do not have a formally structured organization, there is limited functional division of labour and specialization. Most of the management and supervisory and sometimes some of the production functions are performed by the proprietor himself. There could also be extensive use of family labour, though, this may not be true and appropriate always, as some of the largest enterprises in India are owned by individual families. A more realistic characteristic of the informal sector is relatively low order technology that universally prevails in these sectors. The technology is capital scarce and at times the unit services sheerly due to low wages. The technology is capital scarce, predominantly manual, low productivity techniques of production as compared to capital intensive, highly mechanized and high productivity ones used by the formal sector units. The informal sector operates in a highly competitive market and often has to sell goods and services at unfavourable conditions and the nature of the segmentation of the labour market and determination of unemployment and has to face an iniquitous competition from the organized sector industries which form price cartels due to their monopolistic and oligopolistic positions. Thus, they operate in a highly competitive market as they are usually large in number and none is large enough to influence the market. Informal sector has no access to public facilities and state patronage like bank credit,

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<sup>10</sup> Datt, Ruddar, “Unorganized Sector and Informalization of the Indian Economy”, *The Indian Journal of the Labour Economics*, Vol. 50, No. 4, 2007, p.775

advantages of organized capital market, foreign technology, imported raw materials, protection from formal sector, electricity and water. Sometimes, these enterprises have to pay extra amounts for the same facilities or enter into clandestine arrangements with various agencies for this purpose. It is not because these facilities are officially denied to the informal sector units but they are not able to avail them because of their limited material resources, even when the state tried to mitigate some of these disadvantages by giving them a preferential treatment.”<sup>11</sup>

They further quoted the work of Dipak Mazumdar, who observes that “ employment in the formal sector is protected by the actions of the trade unions and government, while the same is denied to the informal sector labour.” Dipak Mazumdar has brought out the distinction between formal and informal sectors more sharply by arguing that “entry into the formal labour market is restricted by artificially raised hiring standards, norms and procedures.”<sup>12</sup>

K.D. Gaur and J.L. Singh further writes while concluding that “Generally this sector includes not only traditional artisans services and petty traders but also small units in manufacturing, construction, trade and commerce, transport and services which operates on a very small scale and have no formal business organization. Thus, the various elements in the definition of informal sector indicate broad spectrum of heterogeneous activities of urban poor households, raising from employment in small scale industries to self-employment, skilled-unskilled including street vendors and petty traders with low and irregular incomes.”<sup>13</sup>

While conceptualizing the informal sector, T.S. Papola, notes,

“Empirical studies have evolved certain characteristics or yardsticks to define the informal sector: any establishment below a particular size, say five workers or ten workers, all those who are self-employed, as an independent workers, generally excluding professionals like doctors and chartered accountants, be considered to be in the informal sector. In some cases, different types of employment or employment status – self-employed, employees, regular employees and casual workers – are also used to demarcate the informal sector. All the regular workers plus employers are considered to be in the formal sector and all other categories in the informal sector. In the traditional thinking, informal sector was viewed as a transient phenomenon. In most of the Western countries which developed during the last century or first half of this century, there was an informal sector to begin with but over a period of time, it disappeared or got transformed into the formal sector. Therefore, the development economists thought that if some developing countries had a large or substantial informal sector this will disappear in the process of development. As a result, the informal sector was not looked at positively and, in fact, it was open viewed in a negative manner in so far as this sector , even though producing many goods and services and providing employment to many, also leads to congestion, traffic bottlenecks and pollution, if allowed to grow in an unregulated manner, in a town or a city. The economic role of informal sector in providing income and employment

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<sup>11</sup>. Gaur, K.D., and J.L. Singh, “Growth of Informal Sector in Developing Economic with special reference to India”, in Singh, Jawahar Lal, Ravi Kumar Pandey, Arun Kumar Singh , (eds.), *Women in Unorganized Sector Problems and Prospects (New Delhi: SunRise Publications, 2003)*, p. 175-176

<sup>12</sup>. Ibid, p.191

<sup>13</sup>. Ibid, p.192

opportunities to a large number of people was not so well recognized. The physical planners thought of the informal sector activities in urban areas as ugly spots in a neatly planned urban settlement and argued for administrative mechanism for removing informal sector operators from the city streets. On the other hand, economists and economic planners pleaded for the recognition of the contribution that the informal sector made in the city economy by providing employment and income to a large number of people. Over a period of time, informal sector has come to be recognized as an important segment of the economy in terms of employment and income generation. The earlier experience of the developed countries has not repeated in most of the developing countries. Informal sector has not disappeared. It has not even declined. In fact, in some cases, it has increased in terms of proportion both to employment as well as GDP ... In case of India, informal sector continues to have a predominant share in the employment structure.”<sup>14</sup>

R.K. Sharma and M. Satish Kumar write,

“ The term informal sector has been referred to as very small units producing and distributing goods and services. These largely consist of independent self employed producers in urban areas of developing countries. Some of them also employ family labour and/or few hired workers or apprentices, which operate with very little capital or none at all. They utilize a low level of technology and skills, which therefore, operates at low levels of productivity. They generally provide very low or irregular incomes and highly unstable employment to those who work in it. They are informal in the sense that they have no legal restrictions like formal registrations, as well as beyond labour laws and have no access to formal credit institutions.”<sup>15</sup> They further provide various connotations ascribed to the informal sector, “It may be qualitatively different from the larger economic arrangements as employed by the term irregular or informal or non market, it may be based on social units rather than atomised individuals designated as households, community or neighbourhood ... it is separate, when described as paralleled, second or dual .. it is oppositional as indicated by alternative or counter ... it may be peripheral as designated by the marginality, gray or coloured ...it may be concealed from the official record and accounting system implied by hidden, underground, black, submerged, non-registered, shadow, unrecorded, invisible, twilight, moonlight, unofficial ... the informal sector as being inferior is implied in terms of illegal activities. A major distinguishing feature of the informal sector being flexible working hours and far less regular income. Indeed, redistributive activities of the informal sector have great income generating capacity, thereby absorbing more of the working population. Moreover, income transfers from the informal sector to the rural economy have far reaching implication. In terms of enterprise functioning, informal economies are supplementary and complimentary rather than substitutive. The informal sector exists to meet the requirements of quotas and securing resources and supplies, yet not distinctly present in the main stream economy. So the informal economies offers a community based solidaristic, cooperative small units, personal, less market valued way of production.”<sup>16</sup>

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<sup>14</sup> Papola, T.S., “Key Note Address”, in Ramanujam, M.S., I.C. Awasthi, Gayatri Pandey, (eds.), *Employment promotion in the Urban Informal Sector* (New Age International Ltd.), 1999, p. 25-27

<sup>15</sup> Sharma, R.K. and M. Satish Kumar, “Informal Sector- Irrelevance or Voguism: An Overview”, in *Ibid*, p.57

<sup>16</sup> *Ibid*, p.58-60



It has been argued that the informal sector units are refuge activities. However, I.C.Awasthi , U.S.Bhandari and Gayatri Pandey, on the basis of the study undertaken by the IAMR, found that the informal sector units are not refuge activities .They observe that, only in,

“the mobile foot-loose activities may be treated as refuge activities and the other segments are at different stages of evolution , ultimately converging to shape on the lines of an establishment in the formal sector.” They further provide evidence to break a myth that informal sector employment is transitory. They note that “Entrepreneurs of the establishments have been observed to be the structural participants i.e. they have made a deliberate choice to be in the informal sector. The informal sector establishments started by them have survived. Employment as entrepreneurs of establishments is, thus, not transitory in character. Hired workers among the establishments have also been observed to be structural participants in the informal sector ...foot loose activities basically attracted cyclic participants, i.e. those who enter these activities in the absence of any other alternative and are waiting to shift to better employment opportunities primarily because of uncertainty about location of foot loose activities and constant pressure from the law enforcing mechanisms ... Home based activities engaged only family workers whose primary activities is domestic work. There work in economic activities with the home environment is secondary and is often combined with domestic chores. There workers are not likely to move out of home environment and hence the family enterprises. Critics of informal sector hypothesized that informal sector expansion results often in the sharing of a fixed real income potential of the locality concerned – implying thereby that employment growth in the informal sector has been involutory in character. Based on this argument, it is often held against the informal sector that the informal sector has no latent potential to engender dynamic growth in urban economies.” Responding to this criticism they observe that through ‘70s and ‘80s, “in no case, employment per unit declined. Also, it has been observed that as establishments grow older there is a tendency to engage more hired workers. Employment growth in the informal establishment has thus been evolutionary in character and not involutory. Income from foot loose activities is generated by selling goods and services to individual consumers and households who have been increasing in number over the time. Demand for the goods and services of foot loose workers and hence income from the foot loose activities may be expected to increase in real terms. Only among towns with fixed clientele for the goods and services of foot loose activities, it may be expected that foot loose employment result in the sharing of fixed real incomes. With increasing trends in urbanization pervading among most of the developing nations, majority of urban towns can be expected to attract more and more of migrant population to their fold, thereby resulting in the increasing demand for goods and services produced by the foot loose workers.” However, it has been observed by them that home based units if sees more employment, then it will have to share a fixed real income as “they have been surviving primarily with the help of business connections of family workers engaged in other enterprises. Extreme form of informality in their operations and their structural linkages being confined only to the informal sector within their locality have constrained the growth in employment and hence incomes in these activities.” The study further established that “ Establishment based activities have been operating mostly from permanent structures largely rented in market place and residential areas ... Fixed based foot loose activities have been observed to be

operating from public property through illegal occupation. They are, therefore, under constant threat of eviction from their business locations. In fact, uncertainty about the location has been a major factor constraining their growth. Mobile foot loose workers, on the other hand, are constantly on the move and do not lay claim on any particular location. They do not therefore, illegally occupy any place. Home based units have been operating from their residential places.”<sup>17</sup>

### **LINKAGES BETWEEN INFORMAL SECTOR AND FORMAL SECTOR OF THE INDIAN ECONOMY:**

It has been observed that the two sectors of the Indian economy cannot exist in isolation without the linkages between them.

In this regard, K.D. Gaur and J.L. Singh observe that there are strong linkages between formal and informal sectors which show that no sector can survive individually without these linkages. Sometimes these linkages have grey shade for the informal sector, i.e. exploitative in its nature.

“There exist both forward and backward linkages of the informal sector with the formal sector, which have been termed as exploitative by some and benign by other. The two forms of economic activities, namely, production and marketing can be subdivided into several processes which reflect juxtaposition of the informal and formal sectors. A large number of big corporations, both in the national and international sectors, subcontract part of their activities outside their own enterprises to small and tiny units. It is cheaper to have the work done outside the formal sector in cases where there are no economies of scale. This is not uncommon in developing countries, as much of the technology and product composition permit little room for economies except by wage reduction ... Casual labour is employed by large factories and enterprises on a contract basis along with regular workers with differential wages and no commitments to any other facilities like medical benefits, educational benefits, pension benefits etc... another form of production linkage is the employment of cheap manual transport facilities for having semi-finished industrial goods or raw materials of corporate sector on a piece rate bases. The whole business is on a contract basis and is technically outside the organized sector, thus avoiding most of the wage and work regulations and the earnings are at the subsistence level or even below it. The same operations conducted by the formal sector would have to be done on time rate payments and at much higher wage levels ... Waste recycling of industrial and household waste is often done by casual labour engaged in scavenging operations. These workers, mostly women and children, separate out mettle pieces, rags, plastic products, corks, wood pieces etc., and recycle into industrial production at lower cost than those incurred, when the same operation is conducted by the formal sector and which may involve large capital outlays and high wages due to unhealthy working conditions. This is yet another linkage of the informal sector with formal sector. Marketing linkages of the informal sector with the formal sector fall into two divisions. A large number of commodities produced in the informal sector are marketed by the formal sector at considerable profit for the later, while the wages in

<sup>17</sup> Awasthi, I.C., U.S.Bhandari and Gayatri Pandey, “Characteristics of Informal Sector : Empirical Evidence” , in Ramanujam, M.S., I.C. Awasthi, Gayatri Pandey, (eds.), *Employment promotion in the Urban Informal Sector* (New Delhi: New Age International Ltd., 1999), p. 74-76

the former are at subsistence level. This is typically true for those commodities which do not require sophisticated technology and are produced by individual craftsman or by small groups of traditional workers, who use their own indigenous means of production and are in no position to reach the consumer of their products directly. Formal sector marketing agencies sometimes take up commission work or in other cases just buy the products from the workers and sell them at higher prices than they pay to the workers, to the upper echelons of the society or in the international market. This control of the market by a few marketing agencies ensures backwardness and poverty among the traditional workers, thereby denying them the possibility of technological change or innovation at the production process and a high marketable surplus is siphoned off. Informal sector is also used for marketing commodities produced in the formal sector at costs much lower than the marketing costs of the formal sector. This process saves the cost of marketing for the large producers or wholesale dealers, since the cost of labour is cheap. The case of newspapers / magazines delivered at home or sold on streets by small boys, too is the case of prevalence of cheap marketing facility by the publishers/distributors.”<sup>18</sup>

In this regard, T.S. Papola, notes, “In the new economic policy framework, informal sector is also likely to increase for positive reasons. The formal sector will be making more and more use of the informal sector due to advantages of low wages and low overhead costs. There are two ways in which informal sector grows. It grows when the formal sector does not grow. But it also grows when the formal sector grows. The reasons for growth are different when the formal sector does not grow, informal sector grows because people have to find employment for their livelihood wherever it is possible. Most of the people find work in the informal sector where entry is easy even though earnings are low. When the formal sector grow fast, it throws up demand for various kinds of goods and services including inputs, produced by the informal sector, thus, leading to its faster growth. The later kind of growth would be most desirable where informal sector is better integrated with the formal sector. It is observed that there is a tremendous difference between those segments of informal sector which are linked with the formal sector and those which are not linked, in terms of productivity and income levels of workers. The linked sector gives much better results than the unlinked sector. But most of the Indian informal sector is unlinked. It basically produces goods and services of various kinds for final consumption rather than as inputs for large companies, multinationals, governments or others ... it suffers from low productivity, low incomes and poor quality of products. So far as the linked part of the informal sector is concerned, the formal sector could take care of that to a certain extent of its own interest ... Government may adopt a policy to encourage such linkages. But those units which are producing final products and selling to the population in general, may not have anybody to look after them. On the top of that, they may also face stiff competition from enterprises producing similar products in the formal sector.”<sup>19</sup>

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<sup>18</sup> Gaur, K.D. and J.L. Singh, “Growth of Informal Sector in Developing Economic with special reference to India”, in Singh, Jawahar Lal, Ravi Kumar Pandey, Arun Kumar Singh, eds., *Women in Unorganized Sector Problems and Prospects* (New Delhi: Sun Rise Publications, 2003), p. 180-184.

<sup>19</sup> Popala, T.S. “Key Note Address”, in Ramanujam, M.S. I.C. Awasthi, Gayatri Pandey, (eds.), *Employment promotion in the Urban Informal Sector* (New Delhi: New Age International Ltd.), 1999, p. 28-29

## EMPLOYMENT IN THE INFORMAL SECTOR OF THE INDIAN ECONOMY

The informal sector of the Indian economy as noted before is heterogeneous with various economic activities coming under its umbrella. This sector provides employments to about 90 percent of the Indian masses with easy entry and requirement of no formal tools of education and skills. With the shrinking of formal sector's employment generation capacity after the adoption of liberalization policy, this sector is now considered as the saviour of the Indian working population though without providing security to them and offering very low wages.

Anjali Prakash Kulkarni on the one hand provides a very positive picture of growth of informal sector in the changed scenario and on the other hand she wants to look at the situation very cautiously.

“In the context of liberalization of Indian economy and new economic policy announcements by the government, the importance of this sector receive additional dimension. The new emphasis on delicensing and de-regulation on the one hand and market led growth on the other hand may open a new horizons for the growth and development of unorganized/informal sector. One may also view that the informal sector appears to fit in admirably in the framework of new orientation being imparted to the development strategies in 1990s. Basically, informal sector activities arise in response to a felt or perceived demand. The market oriented growth may provide a conducive environment for the sector to grow. Unaided by MBAs and unaided by public sector financial institutions, the enterprises in informal sector may carve out a niche for themselves in the market. ... In the context of privatization and globalization, the chances of survival of informal sector are very bleak unless private sector through a policy of contractual agreements provides wide opportunities in the informal sector for production of components, spare parts and other ancillary requirements. With globalization of production, with multinational companies capturing a major part of the market, even the fate of big producers in organized sector remains undecided ... so theoretically with delicensing and de-regulations one may anticipate a bright future for the growth and the development of informal sector. But with the advent of oligopoly giants in the form of Transnational Corporations, the chance of growth prospects of informal sector appear as a distant dream.”<sup>20</sup> She further observes the growing importance of the informal sector in providing employment. She writes “Informal sector plays a vital role in employment generation in developing countries, like India ... Informal sector in recent years has been growing, but its absorption capacity as a sponge to attract unemployed, both in rural and urban areas, is limited. While agriculture and industries are not able to provide sufficient employment to the growing additions, informal sector may bear the burden

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<sup>20</sup> Kulkarni, Anjali Prakash, “Employment in Informal Sector: Some Issues”, *The Indian Journal of Labour Economics*, Vol. 36, No. 4, 1993, p. 656-659

as a transitory measure with low income and providing discontinuous self employment to the poor and asset less individuals, particularly women.”<sup>21</sup>

Ruddar Datt while providing insight into the employment scenario provides categories of workers among the unorganized workers.

“Wage workers are persons employed for remuneration among the unorganized workers directly by employers or through by agencies or contracts. Wage workers include casual and temporary workers or those employed by households including domestic workers. Wage workers also include regular workers in the unorganized sector; self-employed in the unorganized sector are workers who operates farm or non-farm enterprises or engage in a profession or trade, either on own account, individually or with partners, or as home based workers. Own account workers include unpaid family workers also. They suffer from two types of vulnerabilities, job insecurity or social insecurity or both; regular workers in the unorganized sector are those working for other and getting in return salary or wages on a regular basis. These workers suffer from social insecurities due to sickness or injury, however, job security is provided. As against them, temporary, casual or contract workers suffer from job insecurity as well as social insecurity; home workers, the International Labour Organization (ILO) in 1996 defined a home worker who carries out work for remuneration in the premises of his or her choice, other than the work place of the employer, resulting in a product or a service as specified by the employer, irrespective of who provided equipments, materials or inputs used.”<sup>22</sup>

He further provided the employment level in the informal sector and observed,

“ The unorganized sector in agriculture accounted for 99.4 percent of self employed and casual workers devoid of security whatsoever. However, in the non agricultural sector, this proportion was as high as 83 percent. In the economy, the unorganized sector workers constituting 86 percent of the total workforce suffers from very insecure working conditions. It is this group that deserves maximum support for improving their living conditions.” He provides the data regarding employment from the report of NCEUS. “NCEUS prepared estimates of employment in the unorganized sector. As on January, 2005, the total employment (principal and subsidiary) in the Indian economy was 458 million, of which the unorganized sector accounted for 395 million, i.e., 86 percent of the total workforce in 2004 -05 ... out of the 62.6 million employed in the organized sector, 29.1 million are unorganized workers applying the criterion of social security benefits. Similarly, out of 395 million workers employed in the unorganized sector , 1.4 million workers avail social security benefits and are, therefore, classified as organized workers. After applying the two criteria, out of a total employment of 457.5 million workers, only 34.9 million are entitled for social security benefits, i.e. 7.6 percent of the total workforce in 2004-05 and the remaining 422.6 million (92.4 percent) are treated as unorganized workers. Comparing with this 1999-00, it is revealed that though during 1999-00 and 2004-05, total employment in the economy increased from 397 million to 458 million, that is,

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<sup>21</sup> Ibid, p. 655-656

<sup>22</sup> Datt, Ruddar, “Unorganized Sector and Informalization of the Indian Economy”, *The Indian Journal of the Labour Economics*, Vol. 50, No. 4, 2007, P.776-777

an increase by 61 million during the five year period, the number of organized workers remained stagnant at 35 million and the entire increase of employment was in the category of unorganized workers.”<sup>23</sup>

Jeemol Unni and Uma Rani while giving insight into the unorganized/informal manufacturing sector write,

“The impetus to growth in the developed countries came from the manufacturing sector. It was considered the engine of growth in traditional economic history. A shift in the share of the gross domestic product and employment from the agricultural to the manufacturing sector was considered as a sign of development. Only after the manufacturing sector has established itself, was the service sector in the economy is expected to grow. However, in recent years, this logic has been questioned with the advent of the new knowledge economy and information technology.” They observed that India had followed the traditional growth path till recently. However, with the advent of liberalization policy for the Indian economy the growth has changed its path from manufacturing sector. “The share of employment in the organized sector of manufacturing sector is only about 20 percent with the rest 80 percent being generated in the unorganized sector ... The value added grew rapidly in the unorganized manufacturing sector in the later part of the reform period, i.e. during 1994-2001 at 6.9 percent as compared to a negative growth in the earlier period when the economic reforms were introduced. Employment in the unorganized sector grew at 2.2 percent during the period 1994-01, after two earlier periods of negative growth. The overall growth in the unorganized sector seems to have picked up rapidly during the period 1994-01. The elasticity of employment with regard to output in the unorganized sector was 0.46 percent. The structure of the workforce in the unorganized sector , however, showed a much more distinct shift towards the urban areas. The rate of growth of employment in urban areas was much higher than in the rural areas. The unorganized sector composed of three employment size classes of enterprises, the own account enterprises (OAME), consisting of enterprises with no hired workers on a regular basis ; the non directory enterprises (NDME), with at least one hired worker on a regular basis and a total of six or more workers; the directory enterprises (DME), with at least one hired worker and ten or more workers. The rate of growth of value added and employment was the highest in the non directory enterprises. There has also been a slight increase in the share of employment in the own account enterprises. Overall, the share of the large size firms – DME in the unorganized sector – in employment and value added decline. While the share of employment increased in the medium size firms, NDME, that of value added rose in both medium and small units, NDME and OAME. The earlier period of reforms were more favourable to the organized manufacturing sector. However, in the later period of reforms, since 1994 - 95, the unorganized manufacturing sector surged forward in terms of growth of value added and employment. In the later phase of reforms, the growth of value added in the non traditional or inorganic industries grew at a much faster rate, at 8.4 percent, as compared to the traditional or organic industries(5.9 percent). The organic industries are those based on natural raw material, such as, food, fibre, paper, wood etc. The share of value added clearly shifted in favour of the inorganic industries in the unorganized manufacturing sector. The growth of employment, however, did not

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<sup>23</sup>: Ibid, P.776

follow this pattern. The inorganic industries registered a slow pace of employment growth as compared to the organic industries. This implies that the industries that grew rapidly were overall less labour intensive and had lower employment generating potential. The share of employment was more or less maintained over the period with more than 70 percent of the employment being generated in the organic industries. In the latest phase of reforms the industries that have performed very well can be grouped into three types of industries; organic industries consisting of food and paper; chemical industries including pharmaceuticals and cosmetics etc.; and metal based and machinery industries. The industries which have growth but with poor quality employment are organic industries, such as, tobacco and wood products and wearing apparel. Wearing apparels is an industry which has had a phenomenal growth profile over the recent period in terms of value added and employment, but with declining labour productivity. The employment generated is of poor quality, perhaps, in the majority of establishments. And finally, there are a group of non growth or non performing industries consist of cotton ginning, precision instruments, rubber and plastic products and office, accounting and computing machinery. These later industries are perhaps faced with stiff competition both internally and from imported goods.” The authors also provided the share of women workers in the unorganized sector. They note “ Overall women workers constitute a little over one third of the workforce and there was a slight increase in their proportion over the period 1994-95 to 2000-1. The growth industries with quality employment registered a decline in the share of female workers. Within this category, some industry groups, such as, chemical and electrical machinery had an increase in the women share in the workforce. The increase in women’s’ share was mainly reflected in the growth industries without quality employment mainly Textiles and in the industries with low quality employment and poor growth, such as, tobacco products and wearing apparels industries. By size composition there was a decline in the share of women worker mainly in the non directory enterprises. There was an increase in the proportion of part time workers in the unorganized manufacturing sector. The increase in part time work occurred mainly in small sized own account enterprises. Further, most of the growth categories have recorded growth of part time workers in own account enterprises. However, the maximum increase in flexibility in terms of part time work was observed in industries with maximum goods, quality growth, particularly chemicals, metal based and machinery industries. The metal based and machinery industries have been growing since the opening up of the economy largely due to the increased demand for the infrastructure sector. There was an increase in the proportion of family labour from 64 to 70 percent over the period. This was mainly in the medium sized industries. The overall increase in the share of family labour was mainly in the industries with poor quality employment. The growth industries with good quality employment registered a marginal increase in family labour. It implies that the hired workers enjoyed good quality employment in these growth industries.” The authors note that the urban areas have seen the growth in the employment in the informal sector. “ The opportunity for employment in this sector were increasingly generated in urban areas as indicated by a shift in the structure of employment from rural to urban areas. There was also a decline in share of employment and value added in the large size units and growth of the medium and small sized units. The shift in employment to the medium sized units could mean an effort at introducing flexible production systems, which helped the firms not only to reduce costs but also

to undertake customized production on a smaller scale.”<sup>24</sup>

Jeemol Unni and Ming Lu regarding employment in the informal sector note, “in India it has always constituted a very high proportion of the workforce, including agriculture. The residual approach (it is the result of deducting estimates of organized employment from total employment figures derived from NSS Employment – Unemployment surveys) or the indirect method of estimation of the proportion of the unorganized sector, in fact, capture informal employment in India. According to this estimate, informal employment accounts for over nine-tenth of the workforce in the country and it rose marginally to 93 percent in 1999-2000. The share of unorganized employment in the economy has shown remarkable steadiness but its contribution to the value added has declined. While the residual approach is an indirect method of estimating informal employment, more recently it is possible to directly estimation of informal sector employment based on a definition of enterprises. Using residual approach the share of the unorganized sector was estimated at 93 percent. The total employment ( principal plus subsidiary) in the Indian economy grew from 397 million in 1999-2000 to 457 million in 2004-05. Of this, the unorganized sector accounted for 340 million in 1999-2000 and 395 million in 2004-05. The recent National Commission report on conditions of work and promotion of livelihood brought out even more interesting aspect of informal employment. Defining informal sector as employment in proprietary enterprises with less than ten workers and informal employment as work with no social security benefit, it presented the interface between those two definitions. Only a minuscule proportion of workers in the unorganized sector received social security benefits (0.4 percent).”<sup>25</sup>

It has been noted by Jawahar Lal Singh et. al that women working in the informal sector have their own specified problems relating to their work. “All those women between 15-60 years, as women labour, who sell their labour in cash or kind or engage themselves into some activity which saves labour, which they can in turn invest somewhere else, so as to earn livelihood are women labourers in unorganized sector. The unorganized sector constitute the women working in these sectors and are classified on the basis of activity, home based producers including artisans and piece rate workers, entrepreneurs of micro enterprises, paid and unpaid family labourers; petty vendors and hawkers; contract labour and casual labour; domestic servants, scavengers, washer-women and dhobi; those doing manual work, like, construction labour and working on roadsides; women engaged in processing work in traditional and non traditional areas. The reduction of female work participation rate in urban areas suggest intensive underutilization of labour time. The low rate is mainly due to under counting of the female employees in small scale, family based and unregistered firms and those working on piece rate basis. The prevalence of women workers in urban unorganized sector significant in number, such as, domestic workers, workers engaged in weaving, garment industry, construction works, export houses, packing etc. But their participation and contribution towards the economy was unrecognized

<sup>24</sup>. Unni, Jeemol and Uma Rani, “Changing Structure of Workforce in Unorganized Manufacturing”, *The Indian Journal of Labour Economics*, Vol. 46 No. 4, 2003, p. 983-995

<sup>25</sup>. Unni, Jeemol and Ming Lu, “Informal Employment in India and China”, *The Indian Journal of Labour Economics*, Vol.50 No. 3, 2007, p. 536-538



as invisible hands, just because they are employed individually by families or they work at home on contractual basis (involving their children also). These female workers are engaged in much inferior work, earn less wages and work for more hours if their total engagement is taken into consideration. The proper knowledge the economic, social and cultural factors responsible for the miserable employment conditions of the women workers in urban unorganized sector are insufficient and have changed considerably due to developmental and policy changes. Majority of women work in unorganized sectors for low wages, because of low level of skills, illiteracy, ignorance and surplus labour. This hampers the bargaining power for increase in wages, remuneration and any opportunity for further development.<sup>26</sup>

They further observe that, "A high degree of women workers are observed in agriculture, animal husbandry, home based occupation, like, handloom, weaving and spinning, handicraft work, tailoring, garment making, food processing, construction work in rural areas. Whereas, in urban formal sectors they are mainly engaged as teachers, mid-wives, nurses, stenographers, clerks etc.. A majority of them work in urban informal sector as domestic servants, sweepers, washerman, dry-cleaners and pressers, street vendors, retail traders, restaurant-keepers,, tailors, potters and clay workers and as construction workers. They are basically concentrated in occupation having low productivity, low wage, inferior status, poor working conditions, less security and less promotional avenues. The reason may be attributed to their lack of formal education, training, limited range of skills, less mobility, gender etc. Besides general problems, working women face some occupation specific problems. In agriculture, during off-seasons it becomes difficult for the women workers to generate income. Industrialization of farming practices debar from employment. As women are unable to operate agricultural implements and handle insecticides and chemical fertilizers properly, their employment is at stake. Women also face lot of problem in dairying and animal husbandry as they lack special training in cattle care. In many cases, as women do not own assets or land, it becomes difficult on their part to get loan from financial institutions for buying cattles. In fisheries, women face problems, such as, ill-treatment, exploitation by middlemen, harassment by Municipal Authorities and Policemen and being charged high rate of market taxes etc. In case of bidi making and tobacco processing women workers are paid much less than the prescribed minimum wages. Many a times, they are not issued identity cards which proved their permanent nature of job. In factories, women are employed generally by contactors and sub-contractors for which their names are not shown in the muster-roll and they are not treated as regular employees. As a result of which they are not entitled to the benefits of regular employees as per the labour legislation. In many cases, they have to work under unhygienic conditions and are exposed to several health hazards. In case of mining and quarrying of high degree of casualization of women employment leads to job insecurity, low wages, hazardous and strenuous work and debarred from other benefits. Women workers working in handicrafts, handlooms, garment making and quilt making mostly work in their homes. They usually work under the contractors. The contractors supply raw materials and take the finished products. They do not get infrastructural facilities to start their own establishment. In case of vendoring and hawking they have to carry big luggage. Transportation is one of the major problems for them. On the top of this they are

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<sup>26</sup>. Singh, Jawahar Lal, Ravi Kumar Pandey, Arun Kumar Singh , (eds.), *Women in Unorganized Sector Problems and Prospects* (New Delhi: Sun Rise Publications, 2003), p. 12,17.

harassed by police, municipal and urban authorities in urban areas. Women working as domestic workers suffer from a lot of exploitations. They are paid very less. They do not have any legal terms and conditions of employment. They work round the clock. They do all types of manual jobs. They do not get any social security benefits, such as, gratuity, provident fund and also no medical benefits. Sometimes, they are physically tortured, abused and sexually harassed.”<sup>27</sup>

### **ISSUE OF SOCIAL SECURITY IN THE INFORMAL SECTOR**

With the raising importance of the informal sector in terms of providing employment and its increasing share in the GDP, the policy makers are now giving due attention to this sector and the working conditions of this sector’s workers. It has been well observed that there is no prevalence of security of any sort to the workers in this sector. The voices are raised for the broad social security programme covering the unorganized sector especially those who are more vulnerable in terms of their job, income and status in the society, like, women workers who work in this sector. But the problem with the social security programme for informal sector is its heterogeneity, vastness and its invisible nature of working.

It is very difficult to define what exactly is meant by the term ‘social security’ as it means different to different people. In this regard, S. Vijaya Kumar and G. Subbayamma write,

“What is social security? Is it simply fulfilling the basic needs of the people? The answer has to come from the people. If we listen to the voice of the poor, then we can understand what they really want. They view well-being holistically and describe ill-being as lack of not only food but also of work throughout the year, money, shelter, clothing and health care and working in often unhealthy, polluted and risky environment. These are basic survival needs and they perceive these as basic social security. These needs have to be protected and assured during the slack periods and during calamities either natural or man-made. Their power to absorb unexpected shocks are very weak and their reacting time to such events is slow. Further, perceived social security needs may also vary according to the type of informal sector workers and their dependents as well as according to the various risks they run. The ILO (2000) has preferred the term ‘collective arrangements’, because it emphasizes the voluntary nature of many social security arrangements in developing countries, like, India. Social security is not only concerned with cash benefits and medical care but also with benefits in kind and other basic needs, such as, housing and possible food security.”<sup>28</sup>

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<sup>27</sup> Ibid, p. 146-149

<sup>28</sup> Kumar, S. Vijaya and G. Subbayamma, “Social Security for Unorganized Sector in India: A Need for Comprehensive Reforms”, *The Indian Journal Labour Economics*, Vol. 44, No. 4, 2001, p. 638

Renana Jhabvala and Shalini Sinha while presenting an argument favouring social security for unorganized/informal sector cited various articles from the Indian constitution which lays foundation stone for such programmes.

“The concept of social security is derived from the provisions of Article 38 of the Constitution of India, which requires that the state should promote the welfare of the people by securing and protecting a social order in which justice-social, economic and political-shall inform all institutions of national life. Article 41 requires that within the limits of its economic capacity the state make effective provision for securing the right to work, education and public assistance in case of unemployment, old age, sickness, disablement etc. Article 42 states that the state should make provisions for securing just and humane conditions of work and maternity relief. While Article 47 requires that the state should regard the rising of the level of nutrition and the standard of living of its people and improvement of public health, as among its primary duties.”<sup>29</sup>

In this regard, C.P. Thakur and C.S. Venkata Ratnam write that,

“The labour market eco system in the country has produced several dilemmas for the policy makers and the players. Given the twin problems of unemployment and unemployability in a situation where there is no social protection for the unemployed, there is this dilemma of whether jobs first and decent jobs later or should the approach is decent jobs alone. No one can be complacent about conditions of work in the unorganized sector. Normatively speaking, everyone should have decent work. In reality, however, the one who has some job craves for a better job. But, in the absence of any credible system of social protection, most people who do not have any job believe that some job is better than no job. Hence, there is persistent growth in the number of working poor, both in absolute and relative terms. When someone argues only decent jobs, it has to be seen whether that is coming from a person whose belly is full. Within this country, one sees a continuous pressure and effort to bring out significant improvements in job quality, conditions of work, social protection and security for the workers in the unorganized sector. Parallely, one also sees a tendency to de-regulate the organized employment through outsourcing /sub-contracting with the terms of conditions undefined, wages low and working conditions inhuman. Home work and putting out system are returning back in several sectors, such as, textiles, bidi, toys etc. It is important to take note of the camouflaging of the embedded economic and social conditions by women and child labour when work goes home. Discussion on conditions of employment in unorganized sector points to the convergence and/or conflict between human rights and employment rights. The position one takes on the related issue depends on one’s perspective. For instance, simple economic calculus will encourage growth mediated income protection as the primary if not the only source of good working conditions. The other, quality of life oriented thinking, will encourage certain minimum condition regardless of economic capability of the national capacity or the industry/enterprise concerned. With nearly half the population being skill illiterate or semi literate and barely 5 percent in the age group of 18-24 years having vocational skills, it is unrealistic to expect decent jobs for all those who seeks job. Majority of the

<sup>29</sup>. Jhabvala, Renana, and Shalini Sinha, “Social Security for Women Workers in the Unorganized Sector”, *The Indian Journal of Labour Economics*, Vol. 44, No. 4, 2001, p. 577

workforce in the unorganized sector comprise those who failed, dropped out or did not have any access to formal education. The minimum qualification for almost all organized sector jobs is a high school qualification. Most do not have that qualification and even those who have the qualification do not have employable skills, whether they are technicians, engineers and MBAs. Even three out of four engineers and MBAs do not have employable skills. If the skill gap is glaring and palpable, the mismatch in skills compounds the problem and makes it appalling and alarming. A significant proportion of labour force has low level of literacy, low skills and employment in low value adding informal /unorganized sector occupations/enterprises ... those who do not have basic education and vocational skill must be finding it tough to keep the job and even if succeeded to maintain the real earnings. Since over 40 percent of Indians are skill-illiterate and the country does not have credible social security arrangement for the unemployed, the incidence of working poor remains high. The incidence of poverty is higher among the employed than among the unemployed because the really poor cannot wait for decent work. For them some job even if it is at the subsistence level is better than no job. Majority of those engaged in informal sector activities, with the exception of small yet growing modern informal sector, are dropouts from formal school education. They usually inherit skills or learn the skills on the job.”<sup>30</sup>

S. Vijay Kumar and G. Subbayamma find about the prevailing social security provision for the unorganized sector, that “ In India, unorganized sector workers were mainly covered under Life Insurance Corporation of India; General Insurance Corporation of India ; National Social Assistance Programme; and Annapurna. The first two are contributory and the later are non contributory schemes. Further, there are quite a few state supported (fully and/or partially) social security and welfare programmes. India has many social security policies and poverty eradication programmes, but not a single scheme\programme has succeeded in achieving the objective-oriented results so far. This is mainly because of lack of political will and proper understanding. At the initial stages of planning social engineering for these programmes is very strong, but when it comes to implementation stage, dilution takes place largely because of political interference which results in a poor outreach and outcome of the scheme. The best example of such schemes are National Old Age Pension and Annapurna (providing rice\wheat of 10 Kg per month to destitute elderly). Social security experts and economists criticized these two programmes because none of these schemes were either viable administratively or operationally. For instance soon after its initiation at central level, Annapurna Scheme was launched in Andhra Pradesh, but after one year due to its administrative problems it was withdrawn. Such type of action will definitely cause psychological depression and anxiety among the real destitute beneficiaries. Further, on economic terms, these two programmes were taking the revenue of the central government. On the other hand , they failed to provide minimum welfare to the deserved section of the society. Hence it is essential to stop such schemes immediately and in their place more appropriate scheme has to develop and implemented.” The authors identify various problems in formulating social security schemes for the unorganized sector which often leads to its failures. “ Due to inconsistency in the labour market, quirt often majority of the workers in the unorganized sector use to change their occupations.

<sup>30</sup>. Thakur C.P. and C.S. Venkata Ratnam, “Conditions of Work in the Unorganized Sector in India”, *The Indian Journal of Labour Economics*, Vol. 50, No.4, 2007, p. 754-757

Nowadays, in the unorganized sector, job is no longer a job for a life. Improved communication facilitated them to move from one occupation to another within a short period. This occupational shift creates problems in implementing the specific occupation-based programme. In reality, under such circumstances, the existing programmes cannot be the simple answer for satisfying the social protection needs of increasing number of workers and their families outside the organized sector.” Another problem is related to the identification of the partners or stakeholders in the schemes. “Who are social security partners/stakeholders? This has to be spelt out before initiating any social security policy. Social security partners could be the government, the NGOs, trade unions, cooperatives\credit associations, insurance companies, and finally the person-in-need (if he/she is capable of contributing). Another issue is, how they establish their partnerships? This aspect has to be worked out since it will have an impact on sustainability of any social security schemes. If the worker is a regular salaried person, then through collective action, a social insurance scheme may be worked out. Not only a regular salaried person, even stakeholders in cooperatives can also have social insurance scheme. In India, LIC and GIC are delivering such services to the beneficiaries. In some cases GIC co-finance and administer health insurance schemes., with various informal sector worker’s association, for instance, the Self Employed Women’s Association (SEWA)., in Ahmedabad.”<sup>31</sup>

Renana Jhabvala and Shalini Sinha write, that, “the social security schemes for women should be formulated differently as per their needs and role in the family. “Women, particularly, are confined to unorganized sector employment, with 96 percent of all female workers being in this sector. Women are concentrated in the lower end of the spectrum, in low paying and insecure jobs. Their work is insecure, irregular and often unrecognized. She works for long hours, for money and subsistence. She does all this with only one aim- better life for her family. However, it should be recognized that her work is very much a part of the national economy. Her work contributes not only to her own family but also to the development of her village and town and to the country as a whole. Extending social security to the unorganized sector, particularly for the women worker is not merely a matter of extending the existing organized sector schemes to new groups. The size and nature of the unorganized sector including the diversity of employment and the geographically dispensed nature of the workplace, pose real challenges. First, employment relations vary considerably, and are in any case, very different from those of organized sector. Second, a major obstacle to introducing contributory social insurance schemes for the unorganized sector is the difficulty in identifying the employer. Third, unlike the organized sector where steady and regular employment is a given fact, unorganized sector workers need employment security, income security and social security simultaneously. Fourth, the needs of women worker’s may vary, for example, child oriented needs are a priority for the majority of the women workers. The women worker plays the triple role of a worker, a housewife, and a mother. The working mother is often bogged down by the burden of the child care. This leads to the decline in the productivity of the women worker as well as negative impact on the health of both the mother and the child. A women worker works for long hours, often seven

<sup>31</sup>. Kumar, S. Vijaya and G. Subbayamma, “Social Security for Unorganized Sector in India: A Need for Comprehensive Reforms”, *The Indian Journal Labour Economics*, Vol. 44, No. 4, 2001, p. 633-639

days a week. She often has to walk long distances by foot or travel in a crowded public transport to reach her place of work. A working mother remains exhausted and often very anxious about her child's welfare. Child care provision relieves the women of one of her multiple burdens, creates time and space and work opportunities for women and supports her empowerment. In the absence of adequate child care facilities, a working mother has no option but to leave the child with a slightly older sibling. A large part of sibling care givers are girl children- many of them not above the age when they need care and nurturing themselves. Provisions of child care facilities enable the girl child to attend school and enjoy their own childhood. The existing state sponsored child care programmes cater largely to 3-6 age group. The younger and more vulnerable 0-3 age group is largely untouched. Also, the child care services which are available for only 3-4 hours in a day do not cater to the needs of the working mother and are of not much help in lessening the burden of a working mother. The most product years of a woman's life are also the reproductive years of her life. In the absence of any provision for maternity leave, a woman worker often has to leave her job to have a child. Poor health, additional medical expenses along with loss of employment make the woman worker economically vulnerable during the period of child birth, plunging her into a crisis of borrowing and high interest expenses. Often, she does not take adequate rest and starts working soon after child birth with adverse effect on her health. This repeated neglect of a woman's health during pregnancy and child birth manifests itself into a high maternal mortality rate, anemia and poor health of the woman worker. As far as the present framework of the Indian constitution is concerned, maternity benefit is an undisputed entitlement under the law. Mainly two Acts govern the question of entitlements: The Maternity Benefit Act, 1961 and Employees State Insurance Act, 1948. Lives of women workers in the informal sector are replete with different kinds of risks including personal, occupational and family risks, derived from sickness. Sickness of herself or of immediate family members may result in loss of employment. It also entails additional expenses in terms of medicines and/or hospitalization. With an increasing privatization of the health care services, the woman worker is forced to shoulder the extra financial burden in times of illness or injury. She, thus, has to meet these expenses by either spending her savings, borrowing from money lenders and/or selling or mortgaging/pledging her assets. The reduction in assets eventually leads to a depletion of her income, borrowing and consequent indebtedness, thus, trapping her inexorably in the vicious circle of poverty. With the breaking up of the joint family, changes in employment pattern and exodus from the rural areas, the social security needs of the elderly have become crucial. An old woman worker who has no support and is totally dependent on others for survival is very vulnerable. Widowhood further adds to her vulnerability. Social security for her has many facets. Old age not only means loss or diminution of her income, it also means loss of her health and rise in the cost of medical care. A related problem is one of being lonely, helpless and dependent. It must be kept in mind that any scheme of social security which has to benefit women workers must be decentralized, flexible, user responding, contributory and open to multi financing, keeping in mind their special needs. One major shortcoming of the existing (welfare) fund is that they are not so effective for women workers. Women workers are generally in weak sectors where the fund collection is low. Even when a fund exists, the needs of women workers, like maternity benefit, are given low priority. At present, women workers, especially in the unorganized sector, have no access to any form of health insurance. The greatest problem facing the actual management of the social security system for unorganized workers is the

contentious issue of collection of finance. Organizing the women in the unorganized sector and provision of social security are closely linked.”<sup>32</sup>

Renana Jhabvala and Shalini Sinha observe that there are two main approaches to social security in India, namely, “citizen-based approach” and “work-based approach”. They write, “The citizen based approach entitles every citizen by virtue of the fact that she is a citizen of the country, to access certain services, in particular, the public distribution system, the health care system and the educational system. Beyond these three universal services, there have been attempts by both central and state governments to provide other services in the form of social assistance, including widow pensions scheme, old age homes etc. The approach of the citizen-based entitlement is a rights approach, that is, as a citizen of the country every human being has a right to satisfaction of certain basic needs and it is duty of the state to provide for those needs. There are presently a number of citizen-based entitlements which are provided by the government either to all citizens or to those who are poor, on a means tested basis. These are, drinking water, health care, education, food security, housing and social assistance schemes. The state is required to finance the services as well as undertake the provision. Except for education, the citizen-based entitlement is decreasing as the private sector enters more and more into provisions of these services. This is a worldwide phenomenon and is part of the process of globalization and liberalization where the state has withdrawn from number of sectors. The work-based approach supplements the citizen-based one. The work-based entitlements are statutory and apply to all workers in an employer-employee relationship. The finances for these entitlements are provided by statutory contributions from the employers and the employee. The role of the government is to enforce and implement the schemes. The main statutory work-based entitlements in India are the old age benefits schemes and the health services. In addition, there are schemes for particular sectors covered by the Welfare Funds. In the Welfare Funds, funds are based by levying a cess on the production, sale or export of specified goods or by collecting contributions from the various sources including the employer, employees as well as the government. The five central funds set up by the government of India are, bidi, mines, cine workers, dock workers and building and construction workers. It was earlier believed that the work-based entitlements would become universal as the organized sector grew and the unorganized sector shrunk. It has now become obvious that in fact, the opposite is happening. More and more workers are out of the social security and the coverage of both Employees Social Insurance Scheme (ESIS) and Employees Provident Fund (EPF) is shrinking, as are the number of workers covered by the provisions of various Welfare Acts. The work-based entitlements which allow the organized sector workers to have access to better quality and higher levels of the services have reached the unorganized sector very minimally.”<sup>33</sup>

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<sup>32</sup>. Jhabvala, Renana and Shalini Sinha, “Social Security for Women Workers in the Unorganized Sector”, *The Indian Journal of Labour Economics*, Vol. 44, No. 4, 2001, p. 577-578, 579-583.

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## CONCLUSION

The study on Labour Reforms and Employment Trends in India: 1991-2005 is undertaken to look at the impact of economic reforms on labour and employment. The study was undertaken with the hypothesis that there is no correlation between the economic growth achieved after the initiation of the economic reforms and the availability of the employment opportunity to the Indian labour force. Another hypothesis is that there is greater flexibility and informalization in the Indian economy after the adoption of economic reforms. The study undertaken clearly indicate that there is no correlation between the rapid economic growth and the generation of employment opportunities and there is increasing flexibility and informalization of the Indian economy after adopting the new economic policy including economic reforms.

Indian economy remained under the shadow of strong central government which controlled it via Planning Commission. Indian economy functioned as per the dictates of the central government after independence. As the ideology of the socialism and welfarism was very strong with the then political leaders, the role of state was kept vast in the economy. The Indian economy was divided into public and private sector though dualism of economy was already prevalent in the form of formal-informal or organized and unorganized sector. The public sector was kept under the complete control of government of India especially under the central government. The public sector consisted of all major economic activities, like Communication, Coal and Petroleum Nationalized Banks, Steel are to name few. It was considered that all economic activities are very important for the development of a nation so these should be kept under the state which was considered as the 'vanguard' of the Indian masses. Another reason for keeping these within the control of state was that at that point of time, there was hardly any scope of investment at that large level by the private investors. And, also, it was viewed that if left to the private investors, the profit margins would be high, raising the price of the goods and services, which Indian masses might find it difficult to pay. So to provide these essential goods and services to people at affordable prices, it was considered to be good to keep it under the control of Government Private Sector was kept limited to the not so important activities. To protect the Indian market from the foreign influence, which the

policymakers thought would result in negatives that positive they adopted import substitution strategy which resulted in high tariff walls. Public Sector of the Indian economy enjoyed the position of monopoly as its areas of production were kept reserved and private sector was not allowed to enter there. Not only public sector, the small sector industries also enjoyed special protection and support from government. Public sector was overstaffed as the employment generation was seen as one of the important goals to be achieved by the policymakers. These two sectors were provided large amount of subsidies. All these resulted in the low growth rate without any competitive edge and low efficiency. To come out of the low growth rate and inefficiency, some new policies were formulated in the 1980s. The then Prime Minister, Rajiv Gandhi tried to introduce liberalization though limited in its scope and nature. 1980s saw sudden growth in the Indian economy but that growth turned out to be not only unstable but also sowed the seeds for the major economic crisis, with its increased fiscal deficit and debt. It became clear, in the 1990s, when there was a huge shortage of foreign currency and India was at the gate of bankruptcy due to Balance of Payment crisis. The situation was worsened with the dismantling of Soviet Union, Gulf war of 1990 and political instability prevailing in India. At this point of time, India approached the International Monetary Fund to help overcoming the crisis by providing the financial aid. India received the financial aid, but with certain conditions. These conditions were set by the World Bank and International Monetary Fund under the influence of the Western countries. Congress (I) government in the centre under the leadership of P.V. Narasimha Rao adopted these conditions for Indian economy and termed these as economic reforms. Thus, started the reforms procedure in the Indian economy involving liberalization, privatization, globalization and deregulation. This has generated a great demand between the supporters and critics of the economic reforms. Jagdish Bhagwati and T.N. Srinivasan the great supporters of liberalization policy, see it as an essential to promote greater efficiency and growth leading to the visible reduction in the poverty with its trickle-down effect. Contrary to this view C.P. Chandrasekar and Jayati Ghosh hold the view that these economic reforms will increase the vulnerability of the Indian economy in the globalized market thereby increasing the vulnerability of Indian people. New economic policy as adopted by the then government included reforms for different sectors of the Indian economy. Indian industries received much attention from the policymakers, hence, number of reforms were introduced within this sector, like,

de-regulation of the economic activities that were earlier reserved for public sector only, doing away with the Licence Raj, disinvestment and privatization in public sector and investment by the foreign players and NRIs in Industry was welcomed. All these steps were taken to make the industrial sector more productive and efficient especially in the public sector. Next came the financial sector reforms aimed to open the banking and insurance sector for private and foreign investment. Fiscal policy reforms were adopted to correct the great fiscal deficit by controlling the expenditure of government and increasing the income of the government by rationalizing the tax policy imposed directly and indirectly. Trade policy reforms gave thrust on increasing the export and lowering down the tariff rates. Restrictions on foreign investment were eased down to attract the foreign investment in different sectors of the economy. All these policies were adopted to achieve not only the rapid growth, though most important, but also adopted to raise the living standards of the people and visible reduction in the rate of poverty. There is no doubt that overall Indian economy has raised above the constant 3 percent growth and achieved 6 to 7 percent of economic growth. However, the reform package did not bring out the desired result in various sub-sectors of the Indian economy, like in the industrial sector, which was hoped to increase its production and employment and its share in the GDP of the country. It has been observed that its share in the GDP have remained less than the share of tertiary sector after the adoption of liberalization policy. Foreign investment in comparison to other countries is still very less. Exports have not increased to its expected levels. At the time of adopting trade policies, export industries was seen as the new arena for generating employment where labour intensive technologies are used. As this sector did not grow as per the aspirations of the supports of the economic reforms, this sector did not help in the changing the employment position of the Indian women workforce as desired. Related to the trickledown effect of the economic reforms on the poverty, it has been observed that the number of working poor has increased over the time, not only this, the stepping back of the government from welfare function is hurting those who need it more. Very important thing to note here is that the policymakers totally ignored the agriculture sector of the Indian economy which still provides employment to the majority of the working population of India. The economic growth did not result in the change in the position of India on the human development index, which means that it failed to raise the living standards of people as seen from different measurements like education and health.

Closely linked to the economic reforms is the labour reforms. It is argued by the new liberals that highly regulated labour policy results in high level of unemployment. It is argued that highly protective and regulated market, like in India, with numerous laws, seen as the protector of workers, work as disincentive for entrepreneurs. It is correct to say that India has a long list of labour laws enacted by the central government as well as the state government, covering almost all aspects of work. Most of the laws are pre-independence era, where laws were enacted to discipline the labour. But after independence, the same laws were used as to protect the interest of the workers alone at the cost of entrepreneurs or employers. It is always held by the welfarist, socialist state that labour is weak in comparison to the capital and if left to the market forces, the capital will exploit the labour. With the initiation of economic reforms, it was argued that labour market should also be liberated from the strong hold of state via laws and trade unions. The demand for the labour reforms have raised from time to time after 1990s. Most contentious laws which draws major criticism in India and are held responsible for making Indian labour market highly rigid and inflexible are the Industrial Disputes Act, especially its chapters-V-A and V-B which restrict the entrepreneur to retrench, lay-off, closure without following a due procedure which involves the veto power of the state to decide on the fate of the industry. This law is considered as a major hurdle in the adoption of the practice of free exit which is highly objected by the trade unions arguing that it is totally against the interest of the workers. Another law is the Contract Labour (Regulation & Abolition) Act, which makes the employment of contract labour for the activities which are done by the permanent workers, an unlawful activity. Minimum Wage Law is also considered as the obstacle in the free labour market, as according to this law the government fix the minimum wages which are considered to be high. It has been observed that these demands for labour reforms are rather narrow in a sense that it is concentrated only to few aspects of the labour laws. Labour reforms should focus more on other aspects of labour laws, like, minimizing the labour laws and reduction in the definition of single word differently in different laws and also fixing a minimum time period in which a case can be lodged in the Labour Court and also to decide on that. Attention should be given more on rationalizing and simplifying the existing laws. It can be argued that the majority of the labour laws is applicable to the organized /formal sector and big units where only less than 8 percent of the work force is engaged. Majority of the work force is engaged in the unorganized/informal

sector where the laws generally do not prevail. Labour reforms should aim at bridging the gap between the two sectors of the economy. It is well observed fact that the implementation machinery for these laws do not work properly, resulting in the non-implementation of these laws. Bilateral negotiation should be encouraged instead of going to the Labour Courts which are highly time consuming. After the adoption of economic reforms, the labour militancy is now replaced with the employer militancy as evident from the increase in the number of lockouts and decrease in the number of strikes because of the losing power of trade unions due to fermentation and decrease in the number of organized workers. Even in the absence of any major amendment in the labour laws, the labour market has become flexible. Flexibility is provided by the 'Golden Handshake and Voluntary Retirement Scheme' adopted by the public and private sector of the organized sector, with which an employer is able to get rid of the permanent employees without raising any industrial dispute. Labour reforms, not in its narrow sense, is necessary for the better and peaceful functioning of the labour relations without hurting any party's interest. Labour reforms aiming only at the exit policy would make it very difficult for the policymakers to adopt it.

Indian economy is dualistic in nature comprising of organized/formal and unorganized/informal sector. Organized sector of the economy is considered as highly protected and favoured sector. Here government controls everything from wages to the bonus which is found to be not related to the efficiency of the industry as well as the individual workers. Organized sector employees enjoy job security as well as income security with other benefits, like, pension. Organized sector can be further divided into public and private sector. It is observed that the organized sector failed to generate the employment in the liberalized market economy. It has been observed that the employment growth in the organized sector has not only stagnated but declined when compared to the pre reform period due to the restructuring of the public sector. Private sector has been observed to increase the employment opportunities, but it was overshadowed by the public sector stagnation due to the high importance accorded to it. It has been noted that the employment growth in the organized sector is declining which was earlier considered as the engine of employment generation in pre reforms period. Within the organized sector, inorganic industries enjoyed the high growth using capital intensive modern technology without generating more employment for the Indian labour force. There is a visible reduction

in the traditional activities, like, handicrafts, which are more labour intensive in nature. Other sectors of the organized sector, such as trade, hotels, and restaurants also saw a decline in the labour absorptive capacity. One reason given to this phenomenon is the increased labour productivity in this sector by adopting more capital intensive technology that led to the automation of work procedures. Private banks and commercial banks in this sector also reduced their staff members employing the strategy of multi-tasking so as to become more cost effective and efficient. At the time of adoption of reforms, it was hoped that women would find new job opportunities with job and income security in the organized sector. It is observed that Female Work Participation Rate has increased but because of their low skills and education, women workers have remained at the lower level in the ladder of hierarchy. The rise in the female labour absorption in various industries should be seen cautiously because women are offered monotonous and manual jobs due to their vulnerability as their bargaining power is less than the male workers. Women still constitutes a very small part in the total workforce of the organized sector. This can be seen as the result of demand of the high education and skills on the organized sector which is not imparted to the women workers and also due to the fact that women has to perform the household tasks which makes it difficult for her to work for a fixed time period in the organized sector. It has been observed that majority of the women workforce is engaged in the organized community, social and personal services. Organized sector is now absorbing more number of casual, temporary and contract workers so that it can remain cost effective in the highly competitive market by not paying equal to the non-permanent workers in comparison to the permanent workers and also non burdening it from paying other benefits. This is seen by many as the informalization of the formal sector of the Indian economy. Now, even in the organized sector number of unorganized/informal workers is increasing. The unorganized/informal sector has proved to be surprise package because at the time of adopting the economic reforms it was argued that the shrinkage of the organized sector will have similar and negative effect on this sector. This sector has not only managed to survive, it has increased in terms of production and employment generation. This sector has always remained open for those who could not find the job in the formal sector especially by those who do not possess high skills and high level of education. This sector has provided and still providing jobs to more than 90 percent of the Indian working population. This sector is consist of agriculture and

other small economic activities. This work does not include the agriculture and mainly focused on the urban informal sector. It has been argued that this sector will gradually merged in the organized sector as the process of industrialization and modernization will get momentum, but this has not happened and is not being seen to happen even in the future. This is the sector where majority of the women workers is finding jobs. This sector provides jobs but at very minimal wages and without any sort of security to its employees. This sector has remained labour intensive because of the indigenous technology being used and labour productivity remained low. It has been argued that the informal sector when linked to the formal sector grow in both the situations where the organized sector grow and even when the organized sector does not grow. There is the increasing use of home-based work and piece rate system in this sector. All the sub-sectors of the informal sector including trade, hotels and restaurants have provided more employment opportunities. Now the policymakers are trying to provide social security to the informal sector workers so as to reduce their vulnerability at the time of shocks, like, job loss but formulating one complete package for highly heterogeneous sector will be very difficult if not at the level of formulating but surely at the level of implementing.

Thus, hypothesis remained valid that the high growth of economy has remained unable to provide employment to the increasing labour force. Labour policy, provides inflexibility and rigidity in the market do not hold any rational because after the adoption of economic reforms there has been a general shift in the attitude of the govt. regarding the labour relations whereby it has understood that in the liberalized era it can no longer carry the image of being labour protective against the interest of the employers. Though there have been no major amendments in the labour policy involving various laws, there has been increasing flexibility as evident from the fact that there has been a rise in the number of casual and contract workers. Concentrating only to few Acts, eying on the exit policy will not help much to either party of the labour relations. It should not be forget that these laws are applicable to the very little portion of the workforce which are considered as organized workers, therefore, any change in the labour policy would not effect the prevailing labour conditions. Employment has declined in the organized sector, mainly due to the restructuring or the closing down of sick industries in the public sector. Though it was expected and accepted in the short run, but it has not changed even after the 15 years of economic reforms. The hope for this sector generating more employment lies only with the

private sector but one must also remember the fact that the private sector is to extract maximum profits by adopting cost effective procedures, involving high technological capital intensive techniques. Whatever employment growth is observed has been in the informal character whether in the form of rise in the casual workers or the rise in the informal sector itself. The informal sector has remained more or less same even after 15 years of liberalized economic reforms.



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