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Indian Economy and Labour Market

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ABSTRACT

This paper gives a good overview of the theoretical positions of the orthodox and heterodox schools of thinking and then moves on to question the empirical evidence on the relationship between labour market reforms and labour market performance. It also asks the question whether the European debate on flexicurity has any relevance for India and concludes that India"s labour market reforms should move (and move) in this direction, albeit with its proper and adapted solutions. We are grateful to National Commission for Enterprises in the Unorganized Sector (NCEUS), Government of India to have allowed the ILO to publish this paper which was originally drafted for the Commission.

Keywords: *Labour Market; Indian Economy*.

1.0 Introduction

In the dominant discourses on contemporary economic policy, in India and as well as elsewhere, labour market reforms have acquired a centrality and labour market flexibility is being prescribed as the key to enhance productivity, to be more competitive, to accelerate employment generation and also to step up the tempo of economic growth (Blanchard and Wolfers, 2000; Besley and Burgess, 2004; Burki and Perry, 1997; Forteza and Rama, 2002; Heckman et al 2004; Salvances, 1997 among others). Such a thinking is at the core of the so called Washington consensus, or what Stiglitz (2002) called market fundamentalism, and the essential message is: to improve overall economic performance, it is absolutely necessary to deregulate the labour market and remove or cut protective provisions for labour. However, there are many economists who question the theoretical and empirical basis of the wisdom that castigates protective labour market interventions as hindrance to development; on the contrary, they take the position that such interventions may have a variety of positive effects (Baker et al 2003, 2004, 2006; Freeman, 1993; Howell, 2006; Sengenberger and Campbell, 1994; Standing and Tokman, 1991; Wilkinson, 1992 among others). Thus, at a high level of generality, following Freeman, one may distinguish between two very distinct perspectives, namely, a „distortions‟ view and an „institutionalism‟ view (Freeman, 1993). Arguments underlying these perspectives will be examined in some detail later; however, the essence of the major claims, in terms of causal connections, may briefly be stated here.

1.1. Indian labour market

After strong economic performance until 2010-11, the Indian rate of growth slipped to 6.2 per cent and then five per cent. The political fallout of this slowdown is arguably more pronounced than the economic impact, but concerns are mounting that this may be the beginning of a downward trend in Indian growth.

This paper discusses the big picture implications of the slowdown from a comparative perspective and identifies what can be achieved from changes in fiscal and monetary policy. Catch-up development requires consistently high growth rates that are factors greater than those of advanced economies. India has largely achieved this challenging feat in the last decade.

The rate of growth in India, even with the slowdown, is approximately triple that of the United States and well beyond the negative growth of the Euro zone; the recent slowdown is therefore a cause for concern but not alarm. The real answer to India‟s recent economic turbulence lies in the controversies of fiscal policy. Endemic politicking clouds reasoned fiscal policymaking. Change to fiscal policy usually

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follows crises because of entrenched interests and a fear of political risk. Amidst the recent slowdown and a ballooning current account deficit, action has been taken to further liberalize capital flows and reduce subsidies. The hope is that these changes can stimulate investment while alleviating the current account deficit. These solutions provide some cover in the short run but, in the long run, tougher problems need to be solved.

The Indian economy will correct itself; there is too much latent growth waiting to be unleashed. The steps taken by the federal government to reduce subsidies and liberalize capital flows will help the recovery. But the real drag on competitiveness is not capital market reform and liberalization will not provide a magic stimulus. A range of indicators, including the Competitiveness Index produced by the World Economic Forum, highlight the considerable structural weaknesses of Indian labour markets relative to other dimensions of the economy. India currently has a unique opportunity to address labour market reform, and policymakers should take advantage because it cannot be ignored forever.

2.0 National Commission for Enterprises in the Unorganised Sector (Nceus)

The National Commission for Enterprises in the Unorganized Sector (NCEUS) was established by the Government of India as an advisory body on the informal sector to bring about improvement in the productivity of informal enterprises for generation of large scale employment opportunities on a sustainable basis, particularly in the rural areas. The Commission was mandated to recommend appropriate measures to enhance the competitiveness of the informal sector in the global economy and to link the sector with the institutional framework in areas such as credit, raw material, infrastructure, technology up-gradation skill development, and marketing. In its 2007 report, the Commission recommended a broad policy agenda, including:

A. Promotional Measures & Policies
- Non-Agricultural Informal Sector
- Availability of institutional credit
- Micro-credit and self-help groups
- Raw material supply
- Marketing
- Cluster development and Growth Poles

B. Agricultural Sector
- Public sources of credit, inputs, and irrigation.

C. Expansion of Employment Opportunities land reform
- Self-employment programmers
- Wage employment programmers and the National Rural Employment Guarantee Act
- Skills training

D. Measures to Deal with the Negative Impacts of Certain Laws, Regulations, & Policies on Livelihoods

These included:
- Land acquisition for public projects, including Special Economic Zones (which need to be converted into Growth Poles by creating backward and forward linkages)
- Exclusionary environmental standards
- Negative approach to street vendors
- Exclusionary urban planning

3.0 Market Outcomes and Trade Reforms

The empirical literature on the impact of trade policies on compensation of factors of production has mainly had a developed country focus (see Lawrence and Slaughter, 1993; Krugman and Lawrence, 1994; Sachs and Shatz, 1994; Freeman and Katz, 1995). Much of the existing literature has been concerned with how trade liberalization has affected trends in the Indian labor markets the widening of income inequality between skilled and unskilled labor, the decline in overall employment in manufacturing sectors, and the especially sharp decline in employment in low-skill manufacturing sectors contrast, the linkages between trade and labor markets are yet to be explored thoroughly in the context of developing countries.

This paper takes a step in this direction by analyzing the relationship between labor markets and international trade in the Indian context. In particular, it focuses on the trade liberalization initiated in 1992 and their consequences for labor market outcomes.

4.0 Labor Markets: Structure, Trends, and Reforms

Between 1977–78 and 1993–94, India"s population increased from 639.1 million to 902.8 million, an annual growth rate of 2.2 percent, while its labor force grew from 276.3 million to 385.5 million, an annual growth rate of 2.1 percent. Two-thirds of India‟s workforce finds employment in agriculture and rural industries. One-third of rural households are workforce is in the organized sector the remaining 91 percent are in the unorganized sector, self-employed or employed as casual wage laborers. To a large extent this reflects the high share of agriculture in the workforce, as well as the low growth in manufacturing employment. Within the organized sector, the public sector accounts for about two-thirds of the employment. Table 1 shows how the distribution of employment by status has changed over the years.

Table 1. Employment Distribution in India

(Percentage distribution)

Category	2000	2005	2010
Aggregate economy	100	100	100
	(242.6)	(266.7)	(291.9)
Self-employment	56.5	54.2	53.2
Regular wage employment	15.3	15.3	16.0
Organized sector	8.7	9.0	8.8
Unorganized sector	6.6	6.3	7.2
Casual wage employment	28.2	30.5	30.8
Agriculture	100	100	100
	(167.8)	(177.0)	(182.2)
Self-employment	54.8	52.1	51.1
Regular wage employment	4.6	3.8	3.6
Organized sector	0.7	0.7	0.8
Unorganized sector	3.9	3.1	2.8
Casual wage employment	33.8	36.2	26.8
Industry	100	100	100
	(31.9)	(38.2)	(47.1)
Self-employment		40.6	
Regular wage employment	26.0	28.8	
Organized sector		24.1	20.2
Unorganized sector		4.7	
Casual wage employment		30.6	
Services	100	100	100
	(42.9)	(51.5)	(62.6)
Self-employment		42.9	
Regular wage employment	27.3	43.9	
Organized sector		26.4	23.6
Unorganized sector		17.5	
Casual wage employment		11.9	

5.0 Conclusion

This paper takes a first step toward examining linkages between international trade and labor markets in India. The Hecksher-Ohlin theory predicts that with greater openness to international trade, India‟s labor-intensive manufactures and exports should expand and the abundant factor (unskilled labor) should benefit from the movement towards free trade. I examine whether there is support for such a prediction in the context of the trade liberalization undertaken since 2000.

The paper begins by providing an overview of Indian economic policy since 1999-2000, summarize the trends in the external sector and labor markets, and focuses on the changes in trade policies and labor regulations since 2000.

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