

Sluggish Growth in Employment

What are the Policy Initiatives?

Arup Mitra

Institute of Economic Growth, Delhi

There has been a consistent policy interest in creating an environment for manufacturing growth over the years. But in the context of the sector's continuing poor performance, the new National Manufacturing Policy is a step in the right direction. It has promised to create 100 million more jobs and contribute 25 per cent to the GDP. Among other initiatives the proposed creation of a National Manufacturing Investment Zone or a cluster approach may well have critical impact.

It has been widely noted that growth alone is not sufficient to bring in any major improvement in economic and social wellbeing, particularly of those who are located at the lower echelons of the socio-economic ladder. Rapid growth in productive employment opportunities can distribute the benefits of economic growth among the deprived lot. In other words, employment growth at wages higher than the minimum subsistence level of consumption is crucial for poverty reduction and also to create a stable society that would be free from social turmoil and insurgency.

Industrialization is reflected in the structural shift both in the value added and the composition of the workforce. This structural change is accompanied not only by a rise in per capita income but also improvement in many other development indicators. It involves upward mobility of individual occupations and incomes and a shift in rural-urban composition of the population (Kuznets, 1966). However, in the Indian context, there hasn't been any remarkable shift in the workforce composition from agriculture to industry. Even after rapid economic growth, the share of manufacturing has remained around 11 percent.

Organised Manufacturing

The performance of the organized manufacturing in India in terms of the growth rate in gross value added showed marked improvement in the nineties compared to the earlier period (Table 1; see Mitra and Bhanumurty, 2007). Whether this growth had also resulted in faster employment elasticity or not, has been a matter of serious concern. In terms of mere growth rates both the number of workers and total persons increased from a mere

1 per cent per annum during the deregulated regime (1984-85 to 1990-91) to around 3 per cent per annum over the nineties though this growth has been only marginally above the growth rate that was experienced during the regulated regime (1973-74 through 1984-85). Man-days per worker and man-days per person grew negligibly during the eighties and nineties. For 'workers' category, man-days per worker is an important determinant of earnings, and hence the stagnancy in man-days per worker may have serious implications in terms of workers' income as it may have resulted from the decline in full-time jobs to the workers in the organized industrial sector. However, the constancy of man-days per worker or person may also have resulted from a rise in outsourcing and sub-contracting and assignment of jobs on piece rate basis. Also, it could be an outcome of exhaustion of scope to utilize labour more intensively (Bhalotra, 1998 and Nagaraj, 1994). For example, the contract workers were already utilised to the optimum and there was hardly any scope for further increase in the man-days per worker. Since the scope to utilize labour more intensively was possibly exhausted, firms were forced to employ additional workers in the nineties, reflected in higher employment growth rate.

The increase in the employment growth rate in the organised manufacturing in the nineties, particularly between 1990-91 and 1995-96, could also be explained by the huge expansion that took place in the early reform period. Both domestic and foreign investors invested at large quantities in this period with an over-expectation about the future prospects demand in the Indian economy and led to expansion in the capacity. This possibly led to an increase in the employment growth rate in the organized manufacturing, particularly in the private and joint sector. But, as output started declining or stagnating in the late 1990s, this resulted in capacity underutilization, which might have resulted in job losses (Nagaraj, 2004).¹ Despite this downturn, some argue that the employment growth in the organised manufacturing has increased in the 1990s compared to the 1980s (Goldar, 2000).

Wages per worker shows a fall in the growth rate, marginal though, during the 1990s. (This fall in growth of wages may also be one of the reasons for increase in the employment growth in the nineties.²) However, emoluments per person did not reveal so (Table 1). Quite clearly, the earnings of the skilled/educated employees other than the workers seem to have increased faster than those of the workers over 1990-91 through 1997-98.³

¹ Nagaraj (2004) argues that in the second half of 1990s, organized manufacturing sector has lost 15 percent of workers across the states and industry groups, mostly due to VRS in public sector and retrenchments and lay-offs in the private sector followed by relaxed labour laws in the country.

² Goldar (2000).

³ Reforms were initiated in July 1991 in India.

Table 1: Growth Rate of Select Variables (per cent per annum)

Variables	1973-74 to 1984-85	1984-85 to 1990-91	1990-91 to 1997-98
Gross Value Added	6.4	7.9	9.4
Gross Output	7.6	8.4	8.6
No. of Workers	2.8	1.1	3.1
Mandays per Worker	1.9	0.2	0.2
No. of Persons Employed	2.9	1.1	3.2
Mandays per Person Employed	1.7	0.3	0.2
Wages per Worker	3.0	3.2	2.7
Emoluments per Person Employed	2.4	2.9	3.3
Fixed Capital	7.1	6.4	10.8

Note: 1. Gross output and value added have been deflated by the wholesale price index of the corresponding product group, and fixed capital, by the combined price index of machinery and metal products with 1981-82 as base).

2. Persons include workers and other employees inclusive of administrative and managerial staff.

Source: Annual Survey of Industry Data (compiled by Economic and Political Weekly Research Foundation).

The gross value added growth rate continued to be a little above 9 per cent per annum during 1998-99 to 2007-08 (Table 2). However, the employment growth rate declined further from its earlier low in 1990-91-1997-98 period more so in the case of employees other than workers.⁴ As a result, labour productivity employed grew at almost 7 per cent per annum. Wages per worker remained almost stagnant while the remuneration per person shot up significantly, implying a substantial growth in the salaries per employee (excluding workers).

Table 2: Growth Rate of Select Variables (per cent per annum)

Variables	Rate of Growth (% p.a.)
Gross Value Added	9.45
No. of Workers	2.98
No. of Persons Employed	2.58
Wages per Worker	0.20
Emoluments per Person Employed	5.31
Fixed Capital	4.34
Labour Productivity (Value Added per Person Employed)	6.87
Capital-Labour Ratio (Fixed Capital per Person)	1.75

Source: Annual Survey of Industry Data (compiled by Economic and Political Weekly Research Foundation).

⁴ The employment growth rate in the organized manufacturing sector over 1998-99 through 2007-08 as per the ASI data is however higher than the total employment growth rate shown by the NSS employment-unemployment survey over 2004-05 to 2009-10 though the ASI growth rate is quite close to the NSS estimate over 1999-2000 to 2004-05.

There is a strong positive correlation between the average value added growth and total employment growth measured across all the three digit manufacturing groups (0.77), implying growth is essential for employment generation. However, not necessarily rapid value added growth has resulted in faster employment growth. In spite of the fact that many industries grew rapidly in value added terms, total employment increased only at around 2.6 per cent per annum over the period 1998-99 through 2007-8.

On the whole, for the entire period under consideration (1998-99 through 2007-08) value added growth has been fast in a number of industries as compared to employment growth. Though rapidly growing industries in terms of employment witnessed faster value added growth as well.

In fact, in some of the industries with sluggish employment growth, value added still has grown sizably notwithstanding a strong positive correlation between the value added and employment (average) growth rates across industries. Particularly, the growth scenario of employees other than workers represents a gloomy picture since many industries showed a negative growth rate. This comes as a bit of surprise, particularly keeping in view the popular belief about a favorable job market for the ones who are highly skilled. Usually greater concern has been expressed for the unskilled workers as they are characterized by poor employability. Two reasons may be considered to explain this: (a) because of a high level of salary for the employees other than workers their absorption rate has been sluggish, (b) the recent phase of industrialization is partly because of the rapid spread of industries in the states which were less industrialized earlier and hence, this spur has been accompanied by a rise in the demand for shop floor workers. Nevertheless there are a sizeable number of industries which experienced rapid growth in terms of value added and total employment both.

Importantly, have the so-called labour intensive industries been generating employment significantly? There is a positive relationship between the rate of growth in capital-labour (i.e., total person engaged) ratio and employment growth, implying both the factors of production can increase simultaneously though capital may be increasing at a faster pace than labour. We also note that higher is the level of capital-labour ratio, lower is the employment growth rate implying while some of the labour intensive industries may be experiencing rapid employment growth some others tend to grow sluggishly.

Decomposing value added growth into its components-employment and productivity, we observe that only a handful of industries⁵ have experienced simultaneous growth in both. This implies that growth in value added has been led through the adoption of capital-intensive technologies. Thus there has been a trade-off between employment growth and capital growth.

⁵ 173 (manufacture of knitted and crocheted fabrics), 182 (dressing and dyeing of fur etc), 232 (manufacture of refined petroleum products), 281(manufacture of structural metal products, tanks etc), 300 (manufacture of office, accounting and computing machinery), 312 (manufacture of electricity distribution and control apparatus), 319 (manufacture of other electrical equipment), 332 (manufacture of optical instruments etc), 372 (recycling of non-metal waste and scrap) and others.

Unorganised Manufacturing

The unregistered manufacturing as per the National Accounts Statistics of the Central Statistical Organisation accounts for around 34 per cent of the total manufacturing value added. The units within the unorganised manufacturing sector have been divided into three types: own account manufacturing enterprises (OAMEs) are those which use only household or family labour, non-directory manufacturing enterprises (NDMEs) employ 1 to 5 workers of which at least one is hired and the directory manufacturing enterprises (DMEs) in the unregistered manufacturing include units with 6 to 9 workers irrespective of using power, and units with 10 to 19 workers without using power. However, the definition of workers in the surveys on unorganised manufacturing enterprises by NSSO is very broad. No distinction is made between fulltime and part time workers, and more importantly no time dimension is used in defining a worker. In other words, anyone attached to the unit in whatever way possible, is defined as a worker. The interpretation of employment related concepts in this sector, therefore, has to be made very carefully. Further we may note that the recent survey, 2010-11 has not provided the data for NDMEs and DMEs separately – all being clubbed under establishments.

Comparing the growth rates in terms of employment, output and number of enterprises across the own account manufacturing enterprises (OAME), non-directory manufacturing enterprises (NDME) and directory manufacturing enterprises (DME) - the three segments of the unorganised manufacturing component it is seen that growth in the reform period has been relatively faster in NDME segment compared to the other two segments, particularly in terms of employment and number of enterprises. However, at the aggregate level, employment growth in the unorganized sector has been extremely sluggish.

An analysis of output growth in unorganised manufacturing by major industry groups reveals that textiles and leather, non-metallic mineral products, basic metals, metal products, and machinery and transport equipment achieved relatively faster growth in real value added compared to the other sectors during the post reform period. However, employment growth turned out to be as high as 2 per cent per annum only in textiles, chemical, metal products and transport equipment.

Almost uniformly, growth in urban areas is found to be faster. The only exception is growth in real value added in NDME and DME – the growth rate in rural areas exceeded that in the urban areas though the total value added growth in the unorganised manufacturing has been higher in the urban areas than that in the rural areas. The faster growth in the number of enterprises in the urban areas could be due to the change in the location of the enterprises which could be an outcome of both promising enterprises shifting actually to the urban areas and the reclassification of rural areas as urban over time.

An important point that comes out clearly is that the growth rate in value added in unorganised manufacturing has been much faster than the growth rate in number of workers and number of enterprises during 1989-90 to 2005-06, which broadly corresponds with the reform period. The implication is that value added per worker as well as value added per enterprise has grown rapidly, particularly in the rural areas. However, the employment growth rate was extremely sluggish for which the productivity growth rate has been quite fast in the post reform period and this needs to be interpreted carefully. Besides, the measurement of value added in the NSS surveys on unorganised manufacturing has possibly undergone major improvements over time and if so, the growth rates in value added are not strictly interpretable. Similarly the definition of employment in these surveys to begin with has been quite loose and is not comparable with the NSS employment-unemployment survey, as mentioned above. Part of the decline in the employment growth rate over time in the unorganised manufacturing sector can be attributed to improvements in estimating the number of workers more rigourously.

Over the more recent period, i.e., 2005-06 through 2010-11, employment growth has been mostly negative in the own account enterprises. However, in the establishments it was a little below 2 per cent per annum though across industry groups large variations are discernible. The aggregate employment figure for all establishments and own account enterprises turns out to be negative over 2005-06 through 2010-11.

Some of the findings from our qualitative survey are brought in to delineate the recent changes that are being observed in the informal sector. Employment growth in the informal (unorganized) manufacturing sector has been negative between 2005-06 and 2010-11. Possibly the informal sector units are not able to compete and thus in an attempt to reduce labour cost the downsizing of employment has taken place widely. Due to lack of modernization and inaccessibility to ICT, exports from the unorganized manufacturing sector have not picked up. Neither product diversification nor value upgradation has taken place that will allow Indian units to reap advantages of globalization.

Policy Issues

Realising the importance that over the next decade, India has to create gainful employment opportunities for a large section of its population, with varying degrees of skills and qualifications, the manufacturing sector is expected to be the engine of this employment creation initiative. Apart from the employment imperative, the development of the manufacturing sector is critical from the point of view of ensuring a sustainable economic growth in India. Thus, with the objective of developing Indian manufacturing sector to reflect its true potential, the Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce and Industry, has embarked on creating a policy environment that would be suitable for the manufacturing sector to grow

rapidly. Keeping in view the importance of the employment-industrialization-policies as mentioned above and also the fact that India has not been able to generate employment opportunities in the organized/formal manufacturing sector on a large scale, the national manufacturing policy comes as a silver lining.

In the backdrop of a global recession and large job losses if corrective steps are not taken India's situation can be worse off. From this perspective, the recently cleared National Manufacturing Policy (NMP) promises to create a 100 million more jobs and contribute 25 per cent to country's GDP in a decade. In the face of dampening demand and rising cost of capital the experts in the policy circle believed that it can change the fate of manufacturing in India and turnaround the overall economy.

The policy addresses in great detail the environment and regulatory issues, labour laws and taxation, but it is the proposed creation of National Manufacturing Investment Zones (NIMZs) or clustering of manufacturing units that is treated as a unique way of integrating the industrial infrastructure and achieve economies of scale. NIMZs will be developed as integrated industrial townships with world class infrastructure and land use on the basis of zoning, clean and energy efficient technology with a size of at least 5000 hectare.

The NIMZs will be on the non-agricultural land with adequate water supply and the ownership will be with the state government. It aims at introducing flexibility in the labour market by offering greater freedom to the employers while hiring and firing. It also enables the sunset industrial units to follow a simplified exit mechanism. At the same time it insists on workers' rights which run the risk of being compromised in the name of flexibility.

An important feature of the manufacturing policy is its financial and development incentives to the small and medium enterprises. On the whole, the policy, promises to increase the share of manufacturing sector to the country's gross domestic product to 25 per cent from existing 16. However, the national manufacturing policy's objective of raising the industrial employment to an unprecedented level may not be realized as the organized manufacturing employment comprises only a fraction of the total manufacturing employment.

It may be therefore useful to consider the employment potential of the unorganized manufacturing sector as well and tap the potentials to create quality-employment in this sector. Small and medium enterprises (SMEs) need to undergo an innovative revolution in terms of scale of operations, technology, financing and ways to upgrade skills of workers. Since labour intensive sectors like food processing, apparels and textiles, leather and footwear contribute to over 60 per cent of SMEs' employment (Kant, 2013), greater focus on the labour intensive sectors will enable productive absorption of surplus unskilled labour. Though our study did not deal with the regional profile of the labour market and aspects relating to inter-spatial industrial growth disparity, the policy initiatives need to give top priority to labour intensive goods based industrial growth

in regions characterized by greater magnitudes of unskilled labour and insignificant industrialization.

Issues relating to infrastructure shortage, constraints on energy supply, sluggish exports growth and poor performance of labour intensive exportable goods sector, the lack of innovations required for developing appropriate technology and bureaucratic and administrative rigidities in areas where they tend to hamper growth and employment or attract foreign investment are undoubtedly important though an empirical investigation of all of that remained outside the ambit of the present study.

References

- Bhalotra, S. (1998). 'The puzzle of jobless growth in Indian manufacturing'. *Oxford Bulletin of Economics and Statistics*, Vol. 60(1), pp5–32.
- Goldar, B. (2000.). 'Employment growth in organised manufacturing in India'. *Economic and Political Weekly*, April 1,35, 1191–1195.
- Mitra, Arup and N.R. Bhanumurthy (2006), *Economic Growth, Employment and Poverty: A Study of Manufacturing, Construction and Tertiary Sectors in India*, Geneva, Employment Strategy Department, International Labour Organisation.
- Nagaraj, R. (1994, January 22). 'Employment and wages in manufacturing industries: Trends, hypotheses and evidence'. *Economic and Political Weekly*, 29(4), 177–186.
- Nagaraj, R. (2004, July 24). 'Fall in organised manufacturing employment: A brief note'. *Economic and Political Weekly*, 3, 3387–3390.

Author

Arup Mitra is with the Institute of Economic Growth. His research interests and specialization include urban development, labour and welfare, industrial productivity, growth and employment, and gender. Email: arup@iegindia.org.