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Introduction and Review of Issues

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India's transition to an economy capable of high growth in the years since 1980 has been of global interest, discussion and research. The metaphor of an elephant to describe Indian economy muddling through gave way to that of a tiger uncaged in the 1990s.[1] The Gross Domestic Product (GDP) per capita grew annually by an average of 1.2 per cent in the 1960s and 1970s but this growth rate changed to an average of 3.5 per cent in the 1980s, 3.7 per cent in the 1990s and 5.5 per cent in the 2000s.[2] India has transformed itself to be counted among the fastest growing economies in the world with an average GDP per capita growth rate of 3.7 per cent in the years 1980 to 2004.[3] In terms of GDP growth performance alone one finds that Indian economy's average annual growth rate was 3.5 per cent during 1951–82 (euphemistically called the Hindu Rate of Growth) that increased to 5.4 per cent in the next two decades (1983–99) followed by a growth rate of above 7 per cent in the 2000s. The causes and outcomes of this economic transformation have been the subject of research and analysis in recent years.[4] A perceptive analytical assessment of the evidence and factors driving change is available in Kotwal, Ramaswami and Wadhwa (2011). The economic policy reform of 1991 has played an important role in driving this growth but other pre-existing factors have also influenced the pattern of development (Kochhar, *et al.*, 2006). First and perhaps the foremost feature of India's growth experience is that it is led by services sector unlike in other countries of East Asia and China. In the broader context of economic development and structural change, the observed sequence was that manufacturing followed agriculture while the service sector became prominent only at later stage. India's experience appeared to be different with the share of services sector in GDP sharply going up in the 1990s, beginning with a share of 43 per cent in 1990–91, to reach a high share of 57 per cent in 2009–10. This rapid rise in the share of services has taken place at lower levels of per capita income when compared to presently advanced countries and other Asian economies. In 1895, the share of services in the UK was about 53 per cent comparable to India in 2004 but the level of GDP per capita was 4,100 international dollars (at 1990 prices)[5] compared to 2,278 dollars in India in 2004. Similarly, in Germany the share of services was 53 per cent during 1890–99 with an average per capita GDP of 6000 dollars and came down to 38 per cent by the end of the period. In the case of Japan, services accounted for 48 per cent during 1933–37 and declined to 42 per cent by 1942. The GDP per capita of Japan increased to 2,700 dollars in 1942 from 2,200 dollars in 1937. The upshot is that at similar stages of development India had a larger share of services in GDP. If one takes another fast growing comparable developing country like Malaysia it may be found that the share of services was 49 per cent in 2005 with a per capita GDP level of 9,000 dollars. By 2005, India's per capita GDP was about 2,400 dollars but with a services share of 54 per cent.[6] The flip side of this structural development is that of premature deindustrialization (to borrow the term used by Dani Rodrik). In developed countries like the US (in 1953), Britain (in 1961), Germany (1970) and Sweden (in 1961) manufacturing's share of employment peaked (more than 30 per cent) when their per capita GDP levels were \$9,000–\$11,000 and then deindustrialization began with the decline of manufacturing sector. The developing countries like Brazil, China and India seem to exhibit a contrasting experience. Their employment shares have been observed to shrink while per capita GDP levels have been in the range \$2000–\$5000 (at 1990 prices, Rodrik, 2013a).

In this background, the emphasis of chapters in this volume is on the challenge of structural transformation and employment growth that India faces today. The challenge is how to ensure movement of labour resources in the economy to sectors and activities of higher productivity. Employment outcomes of economic growth are crucial for poverty reduction and inclusive growth as growth effects are transmitted through the labour market.[7] A look at some aggregate statistics will reveal the importance of the issue and the severity of India's employment problem. India has a population of 1.227 billion of which 472 million are employed.[8] A redeeming development is that population growth rate shows a significant slowdown from 1.97 per cent per annum in the decade of 1991–2001 to 1.64 per cent per annum in the decade of 2001–11. The reduction in the population growth rate is expected to shift the population away from children in the 0–14 age group towards the prime working age group

(15–59) raising the rate of growth of labour force above the population growth rate.[9] If India could provide productive employment to this larger labour force then this will raise the GDP growth rate resulting in demographic dividend. Population and work force projections by the World Bank, based on United Nations data, indicate that India needs to create 10 million new jobs annually for the next 10 years to absorb the additions to the working age population. This estimate is true even if one argues that not everyone entering the working age will be seeking jobs as many of them would be in educational institutions. The severity of the problem can be underlined by noting that the Indian economy has created only 2.5 million jobs per year during the last seven years (2005–12).[10]

What are the distinctive features of Indian growth experience particularly in the sphere of labour and employment during recent years of growth? A major issue has been that of labour market outcomes. The high share of agriculture in employment (47.5 per cent in 2012 compared to 68.2 per cent in 1982–83) has been the dominant structural characteristic of Indian economy and it has not changed much over the last three decades. Why has India's growth process not resulted in substantial labour absorption in the non-agricultural sector comparable to East Asian countries and China that have experienced similar high growth? What hinders manufacturing sector growth and employment in particular? This is a recurring question in the Indian development policy debate on employment and growth in recent years.[11]

What has been the impact of this growth transition on labour and employment conditions in the Indian economy? Has it involved or changed the structure of employment distribution among agriculture, industry and services? Has growth drawn labour out of agriculture â la Lewis? What are the challenges of demographic change in the Indian context? Will growth create equal opportunities for men and women or does gender discrimination work against expected benefits of growth? Do labour laws and regulations adversely impact size expansion of firms and job creation? How does one view the legal definition of workers through the lens of economic theory of the firm? Has there been a perspective change in the labour jurisprudence of the Supreme Court of India in recent years? This volume explores these key questions in the interrelated areas of economic growth, structural change, and employment and labour laws. Some of these issues are often not well understood or discussed only with respect to specific sectors like registered manufacturing or explored in insufficient detail in the existing literature on growth and employment in India. Few illustrative examples may be instructive. In recent years, a popular perception is that economic growth in India has been jobless with no growth in formal manufacturing employment (widespread informalization and unorganized sector growth); services-led growth is a recent phenomenon, services revolution is driven by software services (information technology [IT] and IT-enabled services) only, little employment opportunities are available for rural women in India and withdrawal of rural females from labour market is due to lack of job opportunities, wage inequality among men and women is the dominant form of discrimination against women workers, employment conditions have worsened and *de facto* flexibility is sufficiently high to accommodate market-oriented growth, and the judiciary and courts have become 'anti-workers' among others. All these are important empirical propositions that require careful scrutiny and analysis with consistent data. The objective of studies in this volume is to contribute and extend our understanding of these issues.

The volume is organized in two parts. In part one there are six chapters, excluding this introduction, that discuss issues related to economic growth, structural change and employment in India. They lay out in fair detail the different dimensions of the labour market and employment in the context of economic transformation in India. They cover issues related to growth and composition of workforce, services sector growth, inter-sector differences in labour productivity and its impact on poverty, age structure transition and demographic dividend, and labour intensity in Indian manufacturing. It ends with a chapter on gender discrimination in Indian manufacturing. In part two the issues related to employment and labour law are investigated. The four chapters in part two are a mix of analytical, econometric and descriptive analysis of labour regulations, legal definitions and India's Supreme Court judgements.

In chapter 2, Jayan Jose Thomas presents an overview of recent developments in the labour market and employment growth in India mainly during the 2000s. He uses the results of the quinquennial surveys of employment and unemployment (EUS or Employment and Unemployment Survey) conducted by the National Sample Survey Organization (NSSO) and his data covers the latest NSS large-scale survey results (68th Round in 2011–12). A popular perception is that of jobless growth in India during the second half of 2000s. This perception is driven by the NSSO survey results that showed that employment increased by 4.7 million (less than 1 million per year) between 2004–05 and 2009–10 in contrast to a gain of 59.4 million between 1999–2000 and 2004–

05. A closer look revealed that generation of non-agricultural employment in India was at the rate of 8.4 million a year between 1999–2000 and 2004–05, which slowed down to 5 million a year between 2004–05 and 2009–10, but accelerated again to 11.5 million a year between 2009–10 and 2011–12 . In this sense, there is no justification to characterize Indian growth since mid-2000s as jobless. However, Thomas argues that the slowdown of employment in the second half of 2000s is due to structural change in the economy. Two elements of this structural change are: (1) fall in agricultural workforce; and (2) sharp rise in the student population ratio (SPR). He finds that the SPR among rural males and females (age group 15–19) increased by 20 percentage points and by 13 percentage points among urban males and females between 2004–05 and 2011–12. The future labour force in India will be more educated and productive. Equal and perhaps of more significance is the first element.[12] For the first time the total agricultural workforce in India is found to have declined in absolute terms by 20.4 million between 2004–05 and 2009–10. This is in contrast to an increase of 17.4 million between 1999–2000 and 2004–05. He points out that a majority of those who joined the workforce in the first half of 2000s were self-employed rural women who perhaps moved back to their household when income earning opportunities improved for male members of the family in rural areas in the second half of the 2000s. Thomas adduces to evidence of better rural economic conditions in terms of real wages of rural males and consumption expenditure in the second half of 2000s. Notice that agricultural GDP was increasing at 3.9 per cent per annum during the same period. It is pertinent in this context to note that the sharp decline in female workforce (close to 21 million) during 2004–05 to 2009–10 is responsible for the meagre increase in total workforce during the same period. This largely reflects, as observed in another important study, a withdrawal of unpaid helpers (self-employed rural females) and among them those who were in the workforce only in a subsidiary status (Sundaram, 2013). In his analysis of non-agricultural employment, Thomas brings out a striking fact that, during 2004–05 and 2011–12, the construction sector accounted for half of the incremental non-agricultural employment generated in India and all of the employment in rural areas. The contribution of construction sector to GDP did not increase much compared to first half of the 2000s. The obvious conclusion is that the construction sector created only low productivity jobs. Thomas argues that employment opportunities for women in India are inadequate and India's record has been dismal with respect to participation of women in labour force. He finds that the proportion of rural and urban females attending to

'domestic duties only' has increased in 2000s and rightly observes that this is the other side of the low female labour participation rates in India. It may be noted that there is a U-shaped relationship between female labour participation rate and economic development and it is well supported by econometric evidence (Mammen and Paxson, 2000). Economic development initially moves women out of the labour force because labour market opportunities for men increase and because of social barriers or norms against women taking up paid work. India is no exception. This situation changes as education levels of women rise with economic development and women move back into labour force.[13] This overview of labour market changes in 2000s by Thomas sets the stage for other chapters in the volume.

In chapter 3, Ajit Ghose presents an empirical analysis of India's experience of services-led growth and the associated employment and labour market developments. He conducts the analysis by comparing performance in two sub-periods: 1981–2000 and 2000–10. The analysis brings in experiences of three selected comparator countries namely, China, Indonesia and Thailand to improve one's understanding of the issues. First, Ghose shows that growth in India has always been services-led except during 1951–82 when services grew at a slower rate than industry. Economic reforms initiated since 1991 merely strengthened the pre-existing tendency and did not cause new services-led economy. A simple regression analysis based on data for a selected sample of developing countries shows that the share of services in GDP in India is on average in line with international experience.[14] What is different about India is the exceptionally low share of industry in GDP. In other words, industry and manufacturing in particular has been marginalized in the growth process by the rise of services. At the same time, the employment share of services turns out to be far lower than that predicted by the average international experience. In short, the employment intensity of services in India is exceptionally low. Second, Ghose makes a contribution to the literature by his disaggregated analysis in terms of organized and unorganized segments within the three types of services: traditional, modern and social services. He finds that the services sector had become dominant in both organized and unorganized parts of the economy by 2010. Social services (read largely government services) were the most important contributor to services growth in the organized sector during 1981–2000, but the modern services replaced it in 2000s. The acceleration in the modern services was driven by business services dominated by software services in the organized segment and communication services (read mobile phone services) in the unorganized segment. Ghose's analysis establishes that growth was driven largely by non–traded services and by domestic demand in both periods. Export of software services constituted less than 6 per cent of services output in 2010. The upshot of the analysis is that the role of software services that earned India its sobriquet 'back-office' of the world was rather small in the making of 'services revolution' of India. Third, Ghose finds rather surprisingly that employment intensity of services growth was actually higher than that of manufacturing in both periods. He measures employment intensity by the ratio of employment growth to output growth (often wrongly called employment elasticity of output[15]) and measures employment by the number of persons in the age group 15–59 who reported being gainfully employed for a major part of the reference year (majority time criterion) in the Indian surveys. This idea enables him to focus on core workers in the economy and develop a better understanding of the employment effects of services-led growth in India. Contrary to the widely held belief that services sector growth has been 'jobless', Ghose shows that services sector contribution to employment growth in India is higher than manufacturing in 2000s relative to 1983–2000. However, services created more jobs for high-skilled workers and less number of jobs for low-skilled workers relative to manufacturing in 2000s. Fourth, he draws attention to the often overlooked fact that India's past policies have led to a strange situation wherein the organized sector has comparative advantage in capital and skill-intensive activities in contrast to the economy-wide factor endowments. India's premature services-led growth has been essentially an outcome of its economic and educational (read tertiary education) policies in the past. Ghose further argues that employment conditions in the Indian economy have improved over the years because employment in the organized sector as well as regular-formal employment grew at a faster rate during 2000s.[16] Finally he concludes by emphasizing the importance of the manufacturing sector for generating demand for low-skilled labour and advocates removal of policy biases against manufacturing. My summary does not do justice to this highly perceptive paper by Ajit Ghose.

How to make growth more pro-poor in labour abundant economies like India is a challenge. In chapter 4, Hasan, Lamba and Sengupta (HLS hereafter) present a study that examines the channels through which aggregate productivity impacts poverty rates in India. Their empirical work draws upon the idea of productivity decomposition recently suggested by McMillan and Rodrik (2011).[17] Economic growth can impact the poor in different sectors through higher labour productivity that in turns improves the earnings of the poor leading to poverty reduction. How do economies achieve higher labour productivity? Broadly in either of the following two ways – the first way is to raise labour productivity in individual sectors (regarded as *within* sector growth neoclassical perspective â la Solow). The second way is by moving labour from low productivity to high productivity sectors (structural change perspective â la Lewis). HLS use data on poverty, employment, and productivity for 15 states to decompose states' aggregate productivity growth into two components: *within* sector productivity growth and the growth that happens due to structural change or re-allocation of labour. The importance of this channel is found to vary across Indian states. States with the best performance in poverty reduction over 1987–2009 (such as Tamil Nadu, Karnataka and Andhra Pradesh) are found to have high degree of structural change in contrast to states with weak performance in poverty reduction (like Bihar, Madhya Pradesh and Assam) who were found to have a low degree of structural change. Their chapter reveals some interesting insights about combination of outcomes (within sector growth and structural change) in individual states like Bihar (low productivity agriculture to low productivity construction), Karnataka (relatively weak *within* sector growth but high structural change) and Punjab (good *within* sector productivity growth but weak structural change). The takeaway from this interesting exercise is that growth enhancing structural change is intimately connected with poverty reduction. They also examine other possible determinants of structural change like indicators of financial development, ease of doing business and labour market flexibility. They underline the importance of investment climate for pro-poor growth in a labour abundant economy. HLS analysis is interesting in its own right and opens up further avenues for more research, and replication using future NSSO surveys. The impact of growth enhancing structural change on quality of employment in terms of worker composition (like regular-formal, regular-informal, casual worker etc.) in different states would be useful. Absolute measures of poverty are not distribution sensitive and future work can attempt to experiment with alternative measures.

In chapter 5 Narayana presents an informative analysis of the question of population ageing and provision of social security in India. This is a topic frequently neglected in the labour market discussions and growth in India. Often the cost of financing old age pension schemes is assumed to be entirely financed by taxing the working adults. Narayana presents a framework based on the National Transfer Accounts (NTA) that recognizes that all elderly individuals are *not* out of labour force and they do contribute to government tax revenues. This new framework of NTA enables the estimation of growth effects of age structure transition through First Demographic Dividend (FDD) with special reference to population ageing effects. In this framework, Narayana estimates the public cost of financing a universal old age pension scheme and its effects on financing lifecycle deficit (LCD) for the elderly population in India. India's age structure transition is marked by a higher share of working age population. This transition is considered to have positive growth effects through demographic dividends. At the same time, population ageing is presumed to have negative impact on economic growth as it increases old age dependency ratio, and impose additional burden on tax paying working population. The burden of public financing of consumption of goods and services by the old age population falls on the working adults. He estimates the aggregate LCD for elderly based on projected population from 2005 to 2050. Narayana's analysis offers new evidence and implications for public policy. First, the growth effect of age structure transition is positive from 2005 to 2045, due to FDD and largely contributed by productivity growth. He finds that the growth rate of national income per effective worker is higher than the labour productivity growth rate, a measure of FDD. FDD growth begins to decline after 2040. Second, due to the presence of informal sector with no formal age of retirement, elderly persons can continue to work beyond the age of 60 and earn labour income. Third, labour and retirement incomes (including asset income) of elderly persons are important sources of direct and indirect (or consumption-based) taxes for general government. This is a partial source of public financing the old age support systems, such as, a publicly-funded universal old age pension scheme (UOAPS). In addition, a publicly-funded UOAPS is found to be supportable to finance the entire LCD of elderly people. Analysis of population ageing recognizes the importance of informal sector as a source of income in general and for the elderly, in particular. Narayana's instructive use of NTA shows significant scope for future researchers in the area of social security finance to incorporate many other omitted variables like gender differences in demographic transition.

Why India has failed to foster labour-intensive manufacturing has long been debated. Employment generation is aided by faster growth of labour-intensive industries and if their share in manufacturing employment is higher. In chapter 6, Das, Sen and Das (DSD here after) analyse the patterns and determinants of labour intensity in the organized sector of Indian manufacturing. First they measure labour intensity by the ratio of number of workers to real fixed capital.