

# Journal of Economics Bibliography

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**K. V. Ramaswamy (Edt.), *Labour, Employment and Economic Growth in India*, Cambridge University Press, 2015, 339 pp. \$90 Hardcover**

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## Book Review

The volume comprises ten excellent pieces of research other than the editor's introductory note. In spite of its thickness the richness makes an enjoyable read.

The chapter by Thomas on labour market argues that the slow growth of overall employment during the 2000s was partly due to the structural changes taking place in the country's labour market. The changes are seen in terms of the fall in the size of the agricultural labour force, and further, the decline in the female employment in the agriculture sector, which is attributed to improvements in the economic conditions in the rural areas. Possibly MGNREGA has played a crucial role in facilitating this transfer. The other part of the paper focuses on low participation of women in the labour market, suggesting that the absence of quality jobs demotivates women, particularly the urban educated, to join the labour market. But the relatively high participation rate of women in the rural areas could be because of economic compulsion among the low income households while the urban lower-middle and middle-middle income households still continue to adhere to the cultural barriers in spite of an increase in the levels of education, thus ending up with low participation rates. The social-anthropological studies in this context need to be revisited to examine if actually urbanisation and urbanism have gone hand in hand before holding only the demand side factors responsible.

The paper by Ghose on services-led growth brings out a number of points very intelligently. The two episodes of acceleration in GDP occurred in the early 1980s and towards the end of the 1990s –both being triggered by the growth of services. The marginalization of industry and the absence of a phase depicting the concurrent growth in both industry and services as it happened in China, Indonesia and Thailand would rather situate India as an outlier. Both the modern and traditional services have grown concurrently though 'the overall growth of services is actually attributable more to the speedy growth of traditional services than to the equally speedy growth of modern services'. The other interesting point in the paper suggests that intermediate demand for services from industry and agriculture has been small and has declined over time, which is quite contrary to the popular belief.

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Why India specialised in exports of skill intensive services and not labour intensive manufactures is answered in terms of the policy bias in favour of tertiary education, which existed right from the fifties, accentuated by the priority given to heavy industries and the consequent need to augment the supply of skilled labour. Further, the tax bias and the relaxed FDI rules for services would explain the growth in skill intensive services and not the skill intensive manufacturing. However, it is important to highlight here that the lack of entrepreneurship which is important for the modernisation of the manufacturing has always been at a low in the Indian context, particularly when it comes to the population located in the middle income groups.

Services in India is not seen to be employment intensive but the share of regular-formal employment in the total employment in organised services is much higher than in organised manufacturing. The contractualisation process is more rampant in the organised manufacturing than the organised services. On the whole, services created many more jobs for highly skilled workers and far fewer jobs for low skilled workers than manufacturing. The author very interestingly covers three types of wage profile: highly skilled (regular formal) employees, low skilled (casual) employees, and the medium skilled (regular-informal) employees. There may be reason to believe that the wage rate of the casual employees is more influenced by the earnings of the self-employed because if earnings from self-employment are very low, the supply of casual labour increases and vice versa. But there is another side to this story: a variety of activities in the informal sector involving self-employment require specialised skill while casual employment need not. Hence, it may be wrong to assume a significant degree of substitution possibility between these two varieties of workers. The faster rise in the wage rate of the casual workers could be because of the decline in the willingness to work as casual workers which is likely to happen with improvement in literacy and completion of primary/secondary level education. Besides, with rise in the income of the skilled workers a variety of new demand may have emerged which could be met by the casual workers.

The paper by Hasan et. al. Indicates that the extent of decline in poverty in India has been considerably less in comparison to other high income countries in Asia. Growth is usually said to have a larger impact on poverty when it is driven by increases in productivity in sectors, employing a large proportion of the total workers. However, growth can also reduce poverty as workers shift from low productivity sectors to high productivity sectors. The decomposition exercise pursued in the paper suggests that the productivity change at the aggregate level can be split in terms of the weighted sum of the productivity in individual sectors and the change in labour productivity due to reallocation of employment across sectors (structural change). Higher is the overall productivity growth (and its two components) greater is the decline in poverty. The decline in the share of agriculture in total output – the sector which employs a large percentage of the work force - has not been accompanied by any significant increase in productivity in this sector and at the same time the manufacturing sector which has the potential to employ the semi-skilled and unskilled workers did not witness any significant expansion in output in sustained manner. In the Indian context states which experienced growth enhancing structural change or growth that involves reallocation of labour from low productivity sectors to high productivity sectors also witnessed greater decline in poverty and the states where the decline in poverty has been sluggish are the ones which did not experience growth enhancing structural change. The paper is precise and it neatly draws the policy implications.

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The paper by Narayana addresses itself to a very uncommon and often misunderstood issue. It examines the linkage between age structure transition, population ageing and economic growth. It notes that over 2005 to 2050 the growth effect of India's age structure transition is positive. Population ageing may not have negative impact on economic growth (as many continue to work in the informal sector without any age of retirement). The work is neat and it waives off the misunderstanding that the proposal of universal old age pension scheme has to be financed by taxing the working adults.

The paper by Das et. al. reiterated the point raised by Hasan et al that the manufacturing did not facilitate a transfer of labour from low to high productivity sector. It shows that India uses more capital intensive techniques of production than countries at similar levels of development and, further, India specialises in more capital-intensive varieties within manufacturing. This has happened despite a decline in the share of labour in many of these industries. The paper however is not able to answer through independent research as to why labour intensive industries are not able to show up. It points to the availability of skill but the capital intensive industries are more likely to be skill intensive than the labour intensive ones. The external demand or demand originating from high income groups within the country for labour intensive products might be limited. The lack of product diversification or innovation to create high value products could be another important factor, retarding its expansion. Also, the profitability aspect of capital intensive versus labour intensive industries could have been explored through firm level data.

Goldar and Aggarwal explore as to why women are discriminated against in the matter of getting regular jobs. They note that casualisation is more prevalent among women than men. In considering the impact of various factors on gender based discrimination the study should have considered a huge body of literature available in this context. It is important to note that women often prefer to access jobs which involve flexibility. Given their responsibility of domestic chores and management of household work, the female labour market participation rate is seen to rise in response to flexi jobs rather than the regular wage jobs. Their inability to cover long distances between the residence and work place forces them to turn down the regular wage jobs. Many of these factors in fact combine to result in weak bargaining power of women in the labour market, leading to significant wage differences across gender. Besides, there is the issue of female productivity versus male productivity – one class of literature suggesting that the former is lower than the latter. If casual jobs are preferred over regular jobs to reduce wage cost from the employers' point of view, then it is natural to prefer women casual workers over male casual workers as wages of women casual workers are less than that of male casual workers. With rising capital intensity in the manufacturing sector skill intensity is also on the rise for which male employees are preferred on regular basis as their female counterparts actually can be more expensive (if several benefits such as maternity leave etc. are to be accounted for) and moreover female employees at that level of skill may not be available in the labour market. For the remaining unskilled or semi-skilled jobs women are naturally preferred (as casual workers) as a matter of cost minimization.

Saha deals with issues related to rigidity and flexibility. A number of interesting points emerge. For example, he talks about three types of dualism in the Indian industry: formal and informal on the basis of regulations, modern and backward in terms of technology used and finally, skilled and unskilled. Rightly he argues in favour of labour market deregulation which would not ban unions and rather hold both unions and employers accountable for their actions and encourage cooperation.

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Ramaswamy explores a very interesting issue relating to contract worker intensity and firm size, type of industries and type of states (flexible/inflexible in terms of state level amendments) in the backdrop of what the literature calls as 'threshold effects'. Based on a piece of research pursued meticulously he notes that contract worker intensity is high in size class 50-99, and that too in labour intensive industries. He is able to come up with an explanation how this may lead to loss of potential output gains and how it may restrict the emergence of large units in labour intensive industries. In the backdrop of the larger issue of a relatively small share of the manufacturing sector in total employment that this volume is contemplating upon, Ramaswamy's paper indeed offers a valuable explanation. The other two papers (Sing and Gopalakrishnan) dealing with the labour regulation issues are also insightful, casting light from qualitative point of view.



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