

Labour, Employment and Economic Growth in India

Edited by K.V. Ramaswamy

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Edited by Professor K.V. Ramaswamy of the Indira Gandhi Institute for Development Research (IGDR), “*Labour, Employment and Economic Growth in India*” is a compilation of articles dedicated to labour market issues and institutions in India. This is an insightful book that makes an important policy contribution and substantiates it with data and thorough empirical investigation.

While the first part of the book investigates trends in labour force participation, employment intensity and sectoral productivity using data from the National Sample Survey Organization (NSSO) and the Central Statistical Organization, the second part focuses on labour markets regulations and institutions. The articles are spread across ten chapters with different motivations; however, there are unifying themes that resonates throughout the book.

According to the World Bank, by 2030, India will have the largest working age population in the world. This “Demographic dividend” is expected to raise economic growth. However, such a demographic dividend can only take place if growth is driven by “structural change” (Hasan *et al.* in Chapter 4), i.e. the reallocation of labour from low productive to high productive sectors as opposed to the existing policy that is focussed on service-driven growth. This is even more crucial when one observes that the share of services in total employment is quite low relative to its share in gross domestic product (GDP) (Ajit Ghose, Chapter 3). With this background in mind, the chapters highlight the need for a shift in policy that would rely on labour-intensive manufacturing in the growth process in India. This is the unifying theme throughout the book.

The current Indian economic structure has over reliance on service industry with a diminishing role of agriculture and low levels of manufacturing productivity. Jayan Jose Thomas (Chapter 2) analyses NSSO data to study labour markets trends overtime, particularly in the 2000s. He finds a decline in agricultural labour force mostly driven by rural females exiting the labour force to attend to domestic duties (an empirical anomaly now well established in the literature) and an increase in the population of students. While the first issue is explored in detail in subsequent chapters, the second point is mostly ignored in the remaining chapters. I think the readers would have benefitted from a more detailed empirical investigation of rising skill levels because the authors argue that service sector does not have the potential to absorb the skilled labour force that India would witness in the years to come. Moreover, there is overcrowding of unskilled labour force in a handful of unorganized industries, mainly, construction and retail.



Ajit Ghose reiterates the point that the post-1980 service-led growth, augmented by trade liberalisation, technological advancement and labour market policies, is unsustainable in the Indian context and is at the cost of a languishing manufacturing sector. There needs to be a change in policy favouring the manufacturing sector and deceleration in the service sector. Moreover, the heavy reliance on the service sector may even be responsible for slowing down the pace of poverty reduction in India.

Hasan *et al.*, in Chapter 4, decompose aggregate productivity growth into a component that measures within sector productivity growth and another that is because of reallocation of labour from an unproductive sector to a more productive sector (referred to the “structural change” by McMillan and Rodrik (2011)). They find that states which were most successful in poverty reduction over the period 1987-2009 were also the ones to witness a high degree of structural change. Notable in this list are the Southern states of Tamil Nadu, Karnataka and Andhra Pradesh. On the other hand, states that have not been able to reduce poverty significantly, Bihar and Assam, for instance, are also the states where labour reallocation across sectors is lowest.

In Chapter 6, Das *et al.* highlight some factors that may explain the poor performance of labour-intensive sectors in Indian manufacturing. As the authors note “labour intensity has fallen from average 3.34 in 1980s to 0.78 in 2000s”. The main state-level explanatory variables are labour regulations, infrastructure (measured by railway networks and availability of electricity), financial sector development, literacy rates and openness to trade. The discussion is insightful and suggests that the availability of skills is an important constraint to the growth of labour-intensive manufacturing in India.

Goldar and Aggarwal study differences in job tenure (defined as regular wage jobs versus casual jobs) by gender within the manufacturing sector. They find that not only the share of female workers has reduced in the total workforce but also their share as casual labour has increased over the period 1999 to 2009. The bulk of women (80 per cent) employed as casual workers in manufacturing exist in four industries, namely, food products, tobacco, textile and non-metallic minerals. This casualisation of female workers is surprising given that the share of female workers with no or up to primary education has reduced. What could explain the increased share of women in casual labour despite their acquiring higher education? The authors conclude that the answer is gender discrimination.

The increasing casualisation of female labour is a surprising phenomenon when witnessed against the general decline in labour force participation among women and increasing education levels. This is undoubtedly an area that opens up avenues for more research. At the same time, I am wary of interpreting this as “discrimination”. The authors’ conclusion is based on their regression of work status (casual versus regular) on a host of explanatory variables where they interpret the coefficient on gender dummy as the existence of discrimination. The standard approach is to attribute whatever wage gap (or in this case, job tenure gap) that cannot normally be explained by differences in observables to discrimination. Thus, I think the results in this chapter need to be interpreted cautiously.

In summary, part I of the book convincingly argues that India needs to change its policy in favour of labour-intensive manufacturing sector. Employment has been stable in this sector, but there is significant potential for “structural change”. The analysis in the first seven chapters paves the way for the remaining chapters, where the role of labour market institutions particularly those related to casual labour are discussed.

Bibhas Saha’s highly informative chapter explains why Indian Labour laws promote casualisation of labour. Saha begins by giving a theoretical explanation of labour market rigidities including the importance of origin of legal institutions. He then goes on to provide empirical evidence from across the world with insightful comparisons between India and

China. China completely revamped its labour laws post 1985 in favour of businesses. On the other hand, in the absence of legal reforms in India, firms responded by hiring more temporary or contract laborers and, at the same time, outsourcing manufacturing activities to informal firms. Thus, even in an inflexible environment, firms have resorted to what the author calls as imperfect flexibility.

Related to this, Ramaswami empirically examines the effect of employment protection regulations on labour force composition in manufacturing firms using panel data of factories from the ASI. He finds that firms with 50-99 workers are more likely to higher contract workers relative to other employment size groups. This suggests that firms use temporary workers to stay within 100 employees' threshold. Moreover, the practice of hiring contract workers is higher in labour-intensive manufacturing industries and states with inflexible labour regulations. He argues that such behaviour on the part of the firms suggests potential loss of output.

On the one hand, India has witnessed an increased use of casual labour in manufacturing post 1991. On the other hand, employers have been pushing for more flexible labour laws when it comes to hiring and firing workers. In the light of this, the last chapter, by Ramapriya Gopalakrishnan, follows major Supreme Court rulings to address the criticism that the court has increasingly been anti-worker and pro-globalisation. She follows the ruling on several cases and concludes that the "Supreme Court's judgments on labour-related issues at present are a mixed bag".

I expect this book to make an important policy contribution especially in the light of The Make in India and Skill India initiative. As the government progresses to increase the share of manufacturing in India's GDP to the planned 25 per cent, chapters in this book suggest that one need to think about how to diversify the manufacturing sector to absorb the different skill levels of the labour force. The authors also generate a lot of ideas for future research, and, thus, it would be a useful book for students wishing to pursue graduate studies in the field of labour economics.

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