

## ENHANCING INDUSTRIAL SECTOR EMPLOYMENT GROWTH PATTERN OF INDIAN ECONOMY: SOME BESTIR LINKS

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### ABSTRACT

*As India completes two decades of its engagement with neo-liberalization, certain glaring contradictions have come out in the open. Making a marginal departure from its stated objectives derived from the logic of the neo-liberal market and globalization theories designed to advance the agenda of the powerful global and indigenous dominant forces as adjutant of globalised capital, the Indian policy establishment has promised a series of welfare steps to reduce the misery, deprivation and rigors of the essentially exclusionary outcomes inherent in the very design of the primary policy thrust. The conflict between growth and employment is inherent in the Mahalanobis strategy which guided India's development efforts for about two decades. The paper arrives at the conclusion that furtherance of macroeconomic reforms, harnessing synergistic links among the sectors and availing of opportunities provided by the forces of globalization and intensive use of technology can enable us to achieve higher level of Employment in industrial sector. Emergence and growth of basic and capital goods industries constitute an integral element of the long term strategy of Indus-triplication. Equally vital is the development of infrastructure with a view to pave this path of industrial growth as well as to promote and accelerate its progress. The development of technologies capabilities and skill formation potentials has further reinforced the foundations of modern industrial structure in the country.*

**KEYWORDS:** *Neo-Liberalization, Emergence & Growth, Indus-Triplication, Macroeconomic Reforms.*

### Introduction

Indian policy makers have stated as their goal the provision of gainful and high quality employment to at least the additions to the labour force in a country where the working age population is expected to grow by about 12 million persons, to 2 percent, annually, till the year 2016, this constitutes a major challenge. Further, the deceleration in job growth in the 1990s, at a time when the economy grew at 6 percent per annum, raised concerns about India witnessing jobless growth. This chapter argues that although labour market developments in the 1990s were not as poor as is generally perceived and employment growth picked up subsequently, India still faces formidable employment challenges. Labour supply continues to exceed labour demand and unemployment has grown by most measures. While a significant part of the labour force continues to shift out of low productivity jobs in the agricultural sector to better paying jobs, mainly in the tertiary sector, the bulk of it is still employed in casual jobs. Encouragingly, labour productivity and wages have risen and the number of working poor has declined. But, at the same time, the inequality in earnings is more marked because wage growth has been more rapid among high wage earners the challenge facing India now is to provide employment to a growing,

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more educated, and young labour force, improve job quality in the informal sector, expand the formal sector and address regional disparities in labour market outcomes. Indian policy makers have stated as their goal the provision of gainful and high quality employment to at least the additions to the labour force in a country where the working age population is expected to grow by about 12 million persons, to 2 percent, annually, till the year 2016, this constitutes a major challenge. Further, the deceleration in job growth in the 1990s, at a time when the economy grew at 6 percent per annum, raised concerns about India witnessing jobless growth. Encouragingly, labour productivity and wages have risen and the number of working poor has declined. But, at the same time, the inequality in earnings is more marked because wage growth has been more rapid among high wage earners the challenge facing India now is to provide employment to a growing, more educated, and young labour force, improve job quality in the informal sector, expand the formal sector and address regional disparities in labour market outcomes.

Labour is a primary factor of production. It is considered to be important not only because it is productive but also because it activates other factors and makes them useful for production purposes. Therefore, the size of labour force in a country is of crucial importance for the level of economic activity. Size of labour force in a country is determined by the number of people in the age group 15-59. Such people who voluntarily keep themselves out of productive activity are not included in the labour force. In India, 39.26 percent of the population constituted the labour force in 2001. As against this, the labour force is 45 percent of population in various developed countries.

Although labour market outcomes in the 1990s were better than what is commonly perceived and job growth has picked up markedly since 2000, India's employment situation is still a cause for concern. But labour productivity and average wage growth were higher in the latter period than in the 1983-93 decade. Then, as economic growth accelerated post-2000, employment numbers too showed an increase. However, since 2000, there has been a deceleration in the growth of wages and earnings, especially for workers whose earnings fall in the middle of the wages spectrum. Additionally, as the large number of working poor indicators, many Indian workers are still trapped in jobs with low earnings.

The structure of employment was, until recently, surprisingly resistant to change. There was little shift in employment away from agriculture and the sector still provides employment to nearly half of India's workers. The share of employment in agriculture has declined, from 65 percent in the early 1980s to 55 percent at present, but much less so than the decline of agriculture's share in GDP. During the same period, the share of manufacturing employment has matched the share of manufacturing GDP and remains at less than 15 percent of all employment between 1999-2000 and 2004-05.

#### **Data & Methodology**

The present study aims to identify the factors responsible for the status of and water resource sectoral composition and employment in industrial sector. The study is based on secondary data which is gathered from various government publications and research articles. The scope of the present study is to make a systematic attempt for the identification of factors responsible for the employment in various sectors. Sectoral indices for twenty eight states in agriculture, industry, demography, education, health and economic infrastructure are constructed using principal component analysis. The present paper is a modest attempt to study the divergence or convergence phenomenon across selected Indian states for the period 1980-81 to 2009-10. To test the implication of the theory, only single equation linear structure models both simple and multiple regressions are specified

#### **Result and Discussion**

##### **Determinants of Growth across Indian States**

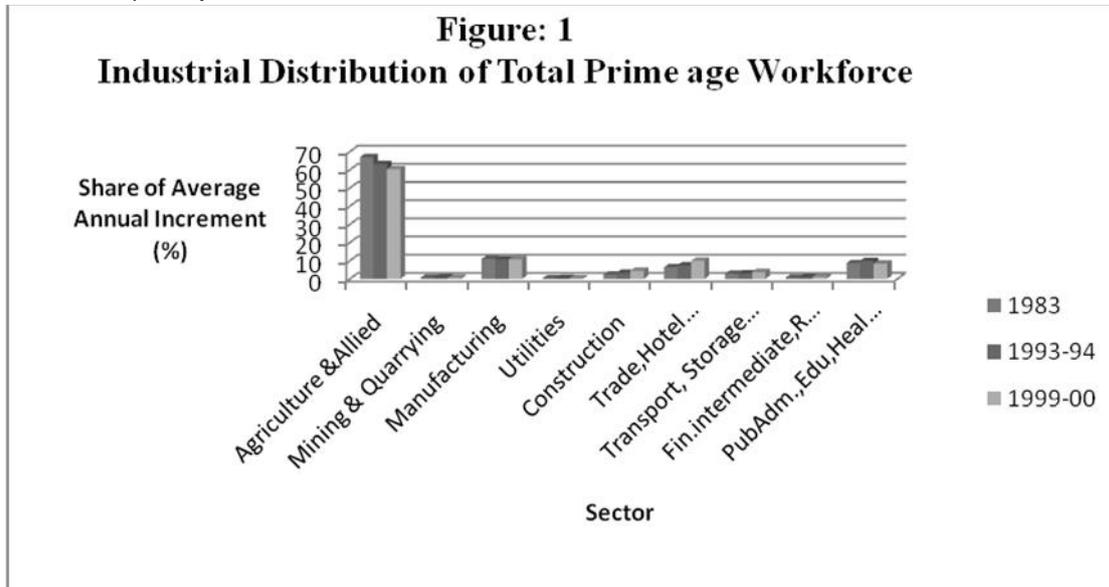
The conflict between growth and employment is inherent in the Mahalanobis strategy which guided India's development efforts for about two decades. However, until the five year plan 1978-83 was formulated, this conflict was not recognized by the government. The assumption of the plans was that growth would automatically solve the unemployment and growth problems. Since the adoption of neo-liberal economic policies in India since 1991, the government's obsession with the high rate of economic growth has made it completely oblivious to possible conflict between economic growth and employment. In New reforms period, there has been deceleration in the growth of employment in India in spite of the accelerated economic growth. This can be explained in terms of steady decline in employment elasticity in all the major sectors of economic activity except in construction. Overall employment elasticity declined in India from 0.52 during 1983 to 1993-94 to 0.16 during 1993-94 to 1999-2000. As would be clear from table, the decline was quite fast in agriculture as it declined from 0.70 during 1983-1993 to 0.01 during 1993-94 to 1999-2000. According to T.S. Papola, the decline in employment elasticity in the agriculture "is found to be due primarily to the sharply declining and even negative elasticity's in a few regions Punjab,

Haryana and Uttar Pradesh where the green revolution has resulted in significant yield and output growth." C.P. Chandrasekhar has also argued that economic growth in India in recent years has not led to much employment generation. He states, "India's trajectory of growth is not matched by employment generation. This will lead to social unrest unless the government rethinks its economic priorities. Structural transformation takes place with the process of economic development in almost all the spheres of economic activities such as changes in sectoral composition of GDP, sectoral contribution to employment, etc. An important consequence of this process is the growing industrialization of world economies:

- **Structural Transformation in Terms of Employment**

Collin Clark, Simon Kuznets and other economists conducted studies on occupational distribution of labor force and concluded that the percentage share of primary sector in labor force declines with the process of economic development, while share of secondary sector increase and the share of tertiary sector also increase with more speed than other two sectors. This hypothesis suggests that high level of growth in real in-come will be accompanied by a higher proportion of work force engaged in industrial or secondary sector. Empirical studies regarding evolution of employment structure amongst developed economies suggests that there have been three distinct phase experienced by these economies. All the developed economies were primarily agrarian economies where a substantial proportion of working population was engaged in primarily economies activities. The second phase is described as the post agriculture period, in which these developed economies experienced (at varying dates) that the proportion of working population engaged in primary activities declined and shifted to secondary sector. The third phase began when these economies entered the post-industrial phase.

Employment growth in the industrial sector can be a residual and result from a lack of productivity growth in the rest of economy. In particularly, demographic pressures in rural areas, which lack sufficient employment opportunities. These migrants are mostly absorbed by the urban informal industrial and service sector, because of the possibilities of small-scale production and less capital-intensive work. (World Employment Report, 2004-05). However, since the 1980's most firms are following the second alternative. Therefore, as a consequence of this strategy, a shift has occurred to move industries functions out of the manufacturing enterprises. This phenomenon has created employment in industries at the cost of employment expansion in manufacturing. Some scholars also explain the rate of growth of employment in industries with the help of the excessive growth of employment in administration along with increasing role of government in achieving the objective of employment generation and reduction of poverty.

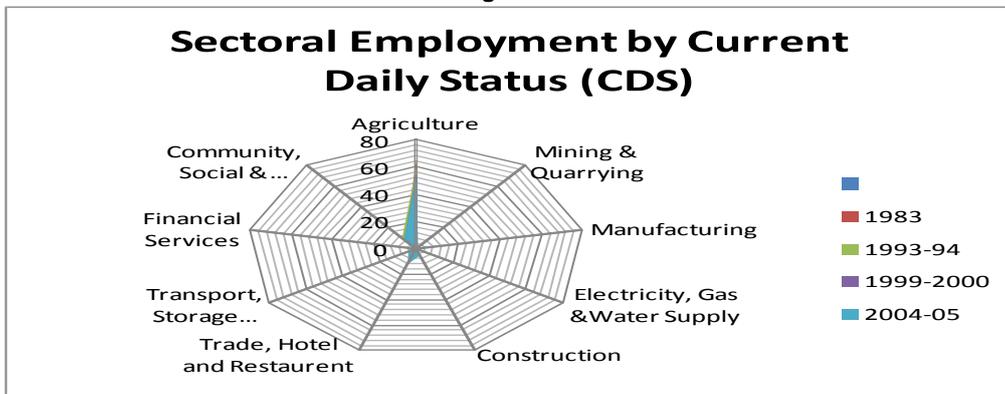


Source: Government of India, Planning Commission, Tenth Five Year Plan 2002-07, Volume I, Annexure5.6, p.163.

• **Employment in Industries**

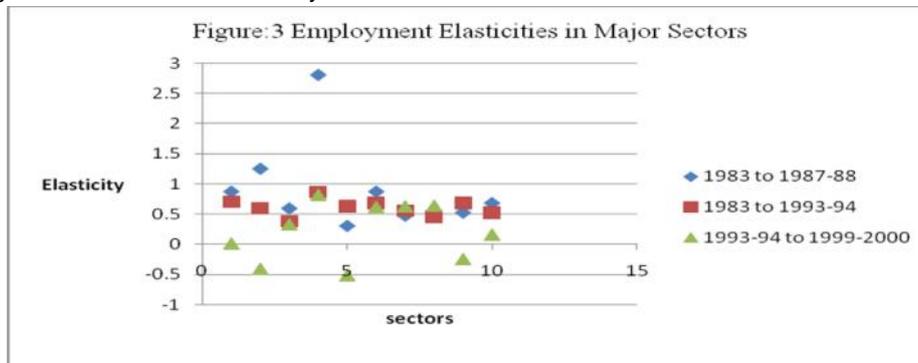
Apart from the issue related to employment in industries, it has also identified several important characteristics of employment in industries. It has been observed that employment in industries is more stable over business cycle, but its producing is unstable in comparison to primary sector. This may be explained by the fact that industries cannot be stored. This eliminates the possibilities of fluctuations in the output of industries caused by changes in the holding of inventories of industries caused by changes in the holding of inventories of goods by firms as well as consumers. The most favorable situation for India is one in which labour demand outpaces its supply and food supply outpaces its demand. It is important to recognize that the real issue in the Indian context is whether the accelerated growth generated decent work in the employment strategy must seek to achieve two things. First creative productive employment opportunities to absorb the annual addition of eight million labour force and sectors such that real wages rise through improved productivity. Their study also reveals sharp decrease in the rate of employment generation during the mid and late 1990s in both rural and urban areas. The overall growth in employment declined from 2.01 percent per annum during 1983 to 1993-94 to 0.98 percent per annum during the period 1993-94 to 2004-05. As is clear from data contained in table growth rate of employment can be followed by examining the sectoral distribution of employment, employment in organized sector, and rural and urban employment.

Figure: 2



Source: Government of India, Economic Survey, 2007-08, Table 10.10, p.247

Next in importance from the point of view of employment is trade, hotel and restaurant. In 2004-05, this sector accounted for 12.62 percent of the employed workers as against 6.98 percent in 1983. Thus annual growth rate of employment in trade, hotel and restaurant sector was 4.01 percent during 1983 and 2004-05. In no other major sector employment increased at this rate. Community, social and personal services accounted for 9.24 percent of employed workers in 2004-05. Employment in this sector increased from 9.10 percent in 1983 to 10.50 percent in 1993-94. The government vigorously pursuing neo-liberal reforms policy on the one hand discouraged fresh appointments and on the other hand encouraged retirement under voluntary retirement scheme.



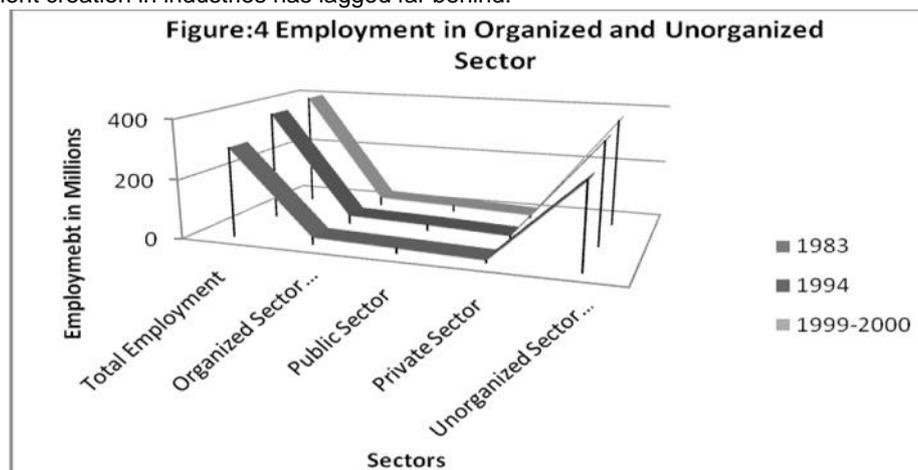
Source: Government of India, Planning Commission, Tenth Five Year Plan 2002-07, Volume I, Annexure5.6, p.163.

- **Shift in the Composition of Employment in Industries**

The degree of development in government industries depends upon the role of state in the provision of industries such as education, health, public administration, defense etc. Since 1990s with the emergence of the process of liberalization and globalization, the role of state in providing above mentioned industry is continuously squeezing. So, employment opportunities are also declining in these industries. Conceptually, the time, productivity, income and all the recognition criteria of employment may help in defining analytically useful measures of unemployment, under employment or disguised employment in the country as whole or various segments of India. The national sample survey data on employment, through less satisfying from the point of view of conceptual purity, are fairly satisfactory from the policy perspective. Differential rates of growth of employment between some of the important industrial sectors of the economy have some oblivious implication. Beside the factory sector, which has recorded the sharpest increase in employment? Among the commodity producing sectors, banking services have generated more employment opportunities in the decade 1971-81 than any other servicing activity in the economy. Data relating of earnings of workers are scanty and disorganized.

- **Structural Shift in Employment in Indian Economy**

Even though Indian has experienced profound changes in output shares, the same is not true for employment shares. A striking feature of India's development is that in contrast to the substantial decline in the share of agriculture in GDP, there has been rather no change in the share of employment in agriculture. Similarly secondary sector from 21.71% (1990-91) to 21.90% (2004-05) of GDP during the 1990s, employment share of industries increased from 11.53% in 1993-94 to 13.9% in 2001, which is not significant in composition of its share in GDP. Thus, while activities have shifted to industries, employment creation in industries has lagged far behind.



Source: Various issue of economic survey, GOI.

If we consider only organized sector, it is found that Indian experience has not been different from developed countries as concentration of economic activity is shifting from primary and secondary sector to tertiary sector both in terms of its share in GDP and employment. The above table reveals that the share of secondary sector in employment in organized sector has declined from 27.56% in 1990 to 24.95% in 2004 while share of primary sector is almost stagnant with 9.45% in 1990 and 9.47% in 2004. The share of tertiary sector has grown up from 62.99% in 1990 to 65.38% in 2004. Thus as far as the concerned, it has been secondary sector declined. Organized sector employment in 1999-2000 was 28.11 million, i.e., about 7.08 percent of the total employment of about 397million. Interestingly, despite economic reforms employment in the organized sector has been declining in percentage terms. In absolute terms, employment in the organized sector was 24.01 million in 1998. It steadily rose to reach the level of 27.37 million in 1994 and further to 28.11 million in 1999-2000. This cannot be considered as a satisfactory development, because in percentage terms employment kept on declining since 1983.

- **Sectoral Composition of Total (Organized and Unorganized) Employment**

India embarked upon a public sector-dominated, basic and heavy industry oriented, autarkic industrialization strategy under the centralized investment planning in 1950-51, consequences have been

import and capital using high cost industrialization limiting labour absorption in industry. The share of manufacturing in the total workforce has been creeping up very slowly, thanks to the restrictive trade and domestic investment policies followed during the centralized investment planning with added emphasis on public sector. From earlier studies we know that slowly rise in the Industries, sector's share in GDP is often followed by a corresponding growth in total employment in the economy. However, in India we find that phenomenal stagnation in the industrial sector has not been followed by a corresponding slow growth in employment in 1990s. Further, the low rise in the share of industry in employment has been much slower than the decline in the share of primary sector in total employment.

### Conclusion

The paper arrives at the conclusion that furtherance of macroeconomic reforms, harnessing synergistic links among the sectors and availing of opportunities provided by the forces of globalization and intensive use of technology can enable us to achieve higher level of Employment in industrial sector. Emergence and growth of basic and capital goods industries constitute an integral element of the long term strategy of Industrialization. Equally vital is the development of infrastructure with a view to pave this path of industrial growth as well as to promote and accelerate its progress. The development of technologies capabilities and skill formation potentials has further reinforced the foundations of modern industrial structure in the country. The secondary sector employment is also characterized by large differential in earnings, with a few jobs in high-tech activities with very high salaries and benefits, on the one hand and a large mass of low earning jobs in the informal sector, on the other. Fast growing sub sectors of industries like manufacturing, construction are revealing such characteristics more prominently.

The dynamic segments of the secondary sector are also geographically concentrated in a few states and large cities and to the extent the new growth is derived from them, inter regional differences in growth rates and development levels are likely to increase. Industrial economy has indeed made rapid strides since independence, with a phenomenal expansion of the industrial base and a remarkable diversification of its structure. India has come a long way from a state of net total dependence on imports for her requirements of manufactures to an exporter of some of the manufacture products. Emergence and growth of basic and capital goods industries constitute an integral element of the long term strategy of Industrialization. Equally vital is the development of infrastructure with a view to pave this path of industrial growth as well as to promote and accelerate its progress. The development of technologies capabilities and skill formation potentials has further reinforced the foundations of modern industrial structure in the country.

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## Appendix

Table 1: Growth of Labour Force (1971-2000)

Sector	1993-94	1999-2000	2001	1993-94	1994-2000
Primary	61.19	57.37	57.3	1.6	-0.34
Secondary	11.53	12.45	13.9	2.91	3.14
Tertiary	27.28	30.17	28.8	3.53	2.26

Source: Joshi Seema - NSSO different rounds (2004).

Table 2: Employment in Organized and Unorganized Sector

Sector	Employment (million)			Growth Rate (percent annum)	
	1983	1994	1999-2000	1983-94	1994-2000
Total Employment	302.75	374.45	397.00	2.04	0.98
Organized Sector Employment	24.01	27.37	28.11	1.20	0.53
Public Sector	16.46	19.44	19.41	1.52	-0.03
Private Sector	7.55	7.93	8.70	0.45	1.87
Unorganized Sector Employment	278.7	347.08	368.89	2.01	1.02

Source: Government of India, Economic Survey 2001-02, Table 10.7, p.240.

Table 3: Employment Elasticity's in Major Sectors

Sector	1983 to 1987-88	1983 to 1993-94	1993-94 to 1999-2000
Agriculture	0.87	0.70	0.01
Mining and Quarrying	1.25	0.59	-0.41
Manufacturing	0.59	0.38	0.33
Construction	2.81	0.86	0.82
Electricity, Gas and Water Supply	0.30	0.63	-0.52
Trade, Hotels and Restaurant	0.87	0.68	0.62
Transport, Storage and Communication	0.47	0.55	0.63
Financing, Real Estate, Insurance and Business Services	0.49	0.45	0.64
Community, Social and Personal Services	0.52	0.68	-0.25
All Sectors	0.68	0.52	0.16

Source: Government of India, Planning Commission, Tenth Five Year Plan 2002-07, Volume I, Annexure 5.6, p.163.

