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EMPLOYMENT IN THE INDIAN MANUFACTURING SECTOR

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Abstract
Economic growth in India post the 1990s has not been accompanied by employment growth. This 'jobless growth' phenomenon, which is the case for many other emerging economies, is mostly due to the growth of the services sector, prematurely ahead of the manufacturing sector, thereby leading to an asymmetrical structural change of the economy wherein the services sector has the largest chunk of the GDP while being the smallest employer, and agriculture being the largest employer with the lowest output share. This paper examines limitations and prospects for labour intensive manufacturing in India, and concludes that there is scope for growth labour intensive manufacturing, policy interventions will be imperative, in the absence of which, sustained growth of the same would be implausible.

Introduction
Employment generation is one of the critical aspects of development for a country, as it is a way for an equitable growth of the economy which could very well lead to reduction of inequality and poverty. As pointed out by various studies, there is an excess supply of labour in India. Given the phenomenon of 'jobless growth', an excess supply of labour directly implies policy intervention to generate demand for labour, owing to the ongoing economic growth's inherent limitation to do the same in the absence of any policy interventions. The working age population of India (15-59 years) is expected to rise by 200 million between 2010 and 2030, according to World Bank estimates. Hence it is all the more imperative to provide them with quality jobs.

Table 1: Growth Rate of Persons Employed in Broad Sectors and Total Economy, 1980-1993, 1994-2002, 2003-2011, and 1980-2011. (% p.a.)

Broad Sector/Period	1980-93	1994-2002	2003-11	1980-11
Agriculture, Forestry and Fishing	1.44	0.52	-1.12	0.43
Mining and Quarrying	4.27	-0.78	0.87	1.82
Manufacturing	2.18	2.24	1.23	1.92
Electricity, Gas and Water Supply	4.39	-1.63	2.84	2.19
Construction	5.79	6.60	9.08	6.98
Services	3.73	3.29	3.00	3.39
Total Economy	2.09	1.57	1.04	1.63

Source: Author's calculations from India KLEMS dataset, [Krishna et. al., 2016]

As can be seen from the above table, the **construction sector has witnessed the maximum growth** in employment, which is mainly in the rural areas, and contrary to expectations, despite liberalisation policies, growth of the manufacturing employment rate remained stagnant between 1980-93 and 1994-

2002 and then declined in the next period. Despite an overall growth in manufacturing output in the third period employment rate in the sector decelerated, which has been attributed to a number of factors. Another sector with a similar situation is the services sector whose growth of employment rate has remained more or less stagnant, despite by 2011 it was having a significant share of the GDP, much larger than agriculture which still remains the largest employer in the country.

Research Methodology

This paper builds on existing research regarding manufacturing sector employment, employing theoretical and empirical analysis to explore the challenges and prospects of employment growth in the manufacturing sector.

Objectives

1. Review literature regarding India's structural change, employment structural change and sectoral trends for output and employment post 1980s.
2. Examine challenges and limitations to employment growth in the manufacturing sector.
3. Identify avenues for labour intensive manufacturing growth and other drivers of employment.
4. Provide possible policy interventions for employment growth in manufacturing.

Literature Review

Existing research on industrialisation in India and employment generation shed light on the sectoral trends of output and employment growth, challenges to employment growth in the presence of higher demand for capital intensive products, and the importance of the manufacturing sector in specific to mobilise the resources for economic growth and its potential to provide quality jobs to the vast number of working population either unemployed or underemployed in agriculture and allied activities. Apart from that existing literature also points to the evolution of global production networks and the consequent position of India within the same, giving an insight to the industrial prospects for India in today's age.

Vivarelli, 2012 mentions that, technological progress in the form of product innovation is employment friendly but process innovations are almost always labour saving, leading to lower employment generation. This points to the importance of Research and Development (R&D) driving sustained economic growth, which in India is not yet a robust sector, thereby missing out on potential employment gains.

Employment generation in the manufacturing sector would require expansion of labour intensive manufacturing. Das et al. (2015) "mentioned four possible explanations for constraints to growth of labour-intensive manufacture in India:

(i) the nature of trade regime which favoured the capital-intensive industries;
(ii) the labour legislation in India, especially Chapter VB of the Industrial Dispute Act, which led to the increase in employment of contract labour;
(iii) infrastructure bottlenecks, especially shortage and unreliability of supply of electricity and credit (Panagariaya, 2008); and
(iv) poor skills and low literacy rates among unskilled labour."[Krishna et. al., 2016].

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Limitations to Employment Growth

According to the Kuznet's Curve, inequality increases with economic growth and then decreases, implying a trickle-down effect of the increase in incomes of the upper quintiles of the population to the lower quintiles. This transfer income can be in the form of wages, corporate taxes and transfer payments made by organisations. The primary channel of this transfer is via wages. The higher the employment generated is, higher will be the magnitude of wages as well as magnitude of distribution of the economic growth, thereby leading to more equitability. Such an argument is certainly invalid given the fact that there is almost a negligible amount of expansion of employment in the non-agriculture sectors in India, which is the sector in which employment generation is imperative for people to move out of agriculture for better opportunities as the economy expands. In addition to it is the fact that quality employment growth was minimal at a time when the economy grew at a rate of 8-9%.

In order understand the employment scenario of the country one needs to analyse the reasons behind the sector wise employment trends. Starting with manufacturing, it can be seen that increase in the organised sector manufacturing output has not been accompanied by an equivalent expansion of organised sector manufacturing jobs. While the manufacturing sector grew at 7.5% between 2003-04 and 2009-10, employment in it grew at 1.23% p.a. during 2003-11.

One reason for such an outcome is the decline in the labour intensity of manufactures post the liberalisation reforms of 1991, which declined from 3.34 per unit of capital in the 1980s to 0.78 per unit capital by 2000s. Liberalisation of trade implied cheaper access to capital inputs which would lead to lower costs due to increased productivity. Hasan et. al., 2003 concludes that an increased access to capital inputs as well as increase in the number of substitutes of the output, leads to an increase in the elasticity of substitution of labour. Such a situation would lead to wages being depressed and a tendency to shift towards informalisation of work, which is exactly what happened: unorganized sector employment accounting for two-thirds of total employment in 2011; decline in share of unorganized sector employment associated with a rise in informal workers in the organized sector [Krishna et. al., 2016]; rise in the share of contract workers in manufacturing between 2000-01 and 2008-09[Kumar, 2012].

Falling Share of Wages

There has been a constant increase in the value added post 1980s, with the increase being particularly sharp post 2000s, which has been accompanied with a falling share of wages in value added.

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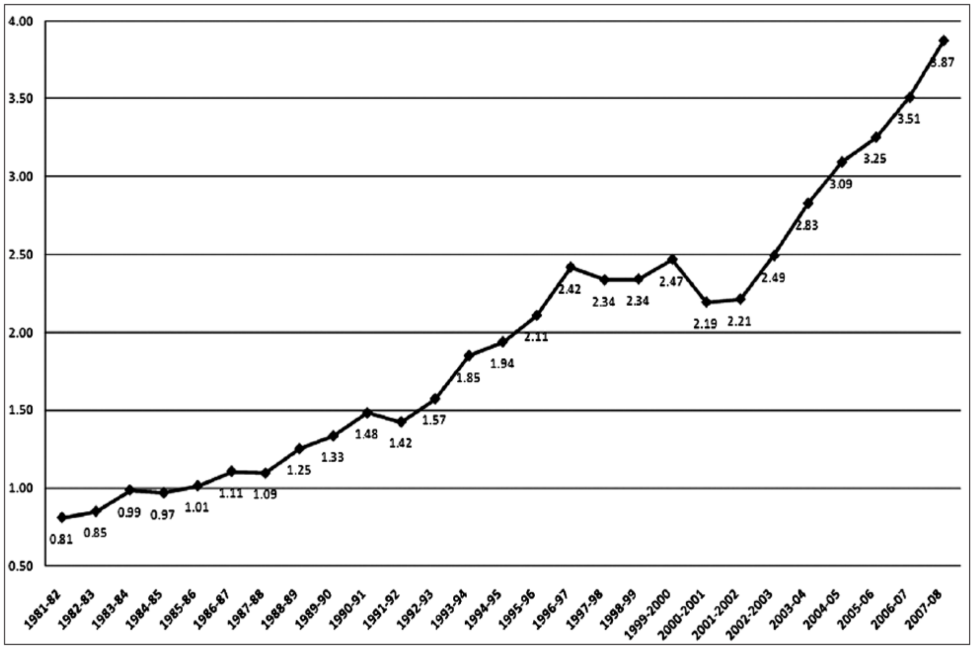
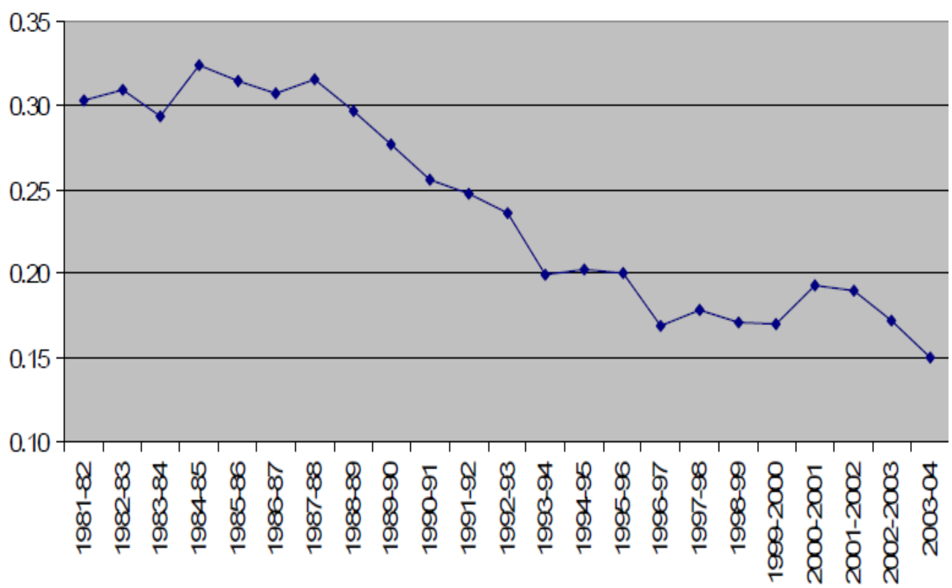
Chart 1: Value Added per Worker



Source: CSO, Annual Survey of Industries. [Chandrashekhar, 2011]

Chart 2: Share of wages in value added



Source: CSO, Annual Survey of Industries, [Ghosh and Chandrashekhar, 2015]

Declining wage shares with rising labour productivity means that most of the surplus is appropriated in the form of profits, rent and interest. According to Marxian theory, such an outcome is a result of a class process whereby it is an intrinsic feature of capitalism such that one class produces surplus but is not able to own it, whereas another class owns the surplus value as it owns the means of production.

Increasing capital intensity of the manufacturing sector hence leads to a lower share of wages in output, since then a higher share of inputs is owned by the capitalist.

Another reason for manufacturing being capital intensive is because, in the manufacturing sector it was the **consumer durables sector** which saw maximum growth. This is so because of the particular way in which markets for manufactures were expanded: which was by way of providing credit to individuals based on speculations (speculation with respect to over-exposure to debt of the borrowers)[Chandrashekhar, 2011]. Lenders were keen on providing credit due to the increased inflow of foreign capital as a result of financial liberalisation. Individuals with access to credit demanded goods which were both capital and import intensive, due to the ‘demonstration effect’ of import quality manufactures such as automobiles, and that the borrowers mostly belonged to the upper quintiles of income levels, thereby making the demand for manufactures biased towards capital-intensive manufactures.

Conclusion

Keeping in mind the need for generation of quality employment, a long term policy to increase the employment rate and reap the demographic dividend of the country would be to expand sectors which have consistently had high employment elasticity such as education, health, and business services. In the education sector, it is primary education which is relatively less skill intensive as well as has been consistently neglected as compared to higher education, and is at the same time labour-intensive. Country-wide expansion of primary education would in itself generate a significant amount of employment along with a greater demand for manufactures and thereby having a multiplier effect associated with much lesser inequality, that too with further rise in labour productivity. A similar argument can also be made for health. Another sector to be focused on is the Medium-Small Manufacturing Enterprises (MSMEs), which according to various studies have been concluded to be a driver of employment growth.

Other long term policy interventions for employment growth, as suggested by Khan (2007) include: increasing wage employment; increasing real wages; increasing self-employment such that it leads to fall in the casualization of workers; rise in the productivity of self-employment; increasing the terms of exchange of the output of the self-employed. Short-term policies would include policies targeting employment rather than inflation; the central bank as agent of development; guaranteeing of minimum wages [Krishna et. al., 2016].

As per the Marxian concept of the Reserve Army of Labour, which is imperative to the reproduction of the capitalist system, it is implausible that the problem of unemployment or the lack of quality employment generation can be solved with the adoption of neo-liberal policies, which argues for a pro-market regime, implying state intervention being necessary. Hence long term strategies for minimum wage provision, keeping in mind that an optimum share of the surplus is held by the labour, indexing it with inflation, will keep the corresponding labour market stable. This must be accompanied by equally effective unemployment benefits with the aim of transferring gains by newer technology and more efficient production processes to those losing their employment due the manifestation of creative destruction in an economy. This can be done by targeted taxes, such as taxing corporates for the economic gains made by a particular innovation.

Expansion of the manufacturing sector is key to the absorption of excess labour force in agriculture; thereby raising agriculture wages, along with enabling the economy reap the demographic dividend.

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