Chapter 1

Introduction

India's employment situation and the state of its labour statistics system are both subjects of national news. The performance of the present government on job creation is also expected to be a key issue in the upcoming general elections in 2019.

India is one of the world's fastest growing economies. To be a stable and prosperous democracy, this growth must be accompanied by the creation of meaningful, secure and remunerative employment. This imperative is widely shared across the political spectrum and by observers of the Indian economy. Realising this goal requires a grounded and comprehensive overview of the state of labour markets, employment generation, demographic challenges and the nature of growth.

The State of Working India (SWI) brought out by the Centre for Sustainable Employment at Azim Premji University is envisioned as a regular publication that delivers well-researched, analytically useful information on India's labour market by bringing together researchers, journalists, civil society activists, and policymakers interested in labour and employment issues.

The first SWI comes at a time when India's employment situation and the state of its labour statistics system are both subjects of national news. The performance of the present government on job creation is also expected to be a key issue in the upcoming general elections in 2019. SWI intervenes in this debate with a careful analysis of the available data. However, it also goes considerably beyond an analysis of the quantity of employment in the economy. We analyse evidence from many different official surveys as well as field studies to present a picture of the contemporary Indian labour market. How many are unemployed? Who are the unemployed? Where are the jobs? Which states are performing better? Is job quality improving? What is happening to the caste and gender disparities? Such questions and many more are addressed in the following pages.

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1.1 / The Jobs Question

The past few years have seen a vigorous debate over both the quantity and the quality of employment generated in the economy. It has been claimed that the total volume of employment generated has been inadequate. Others have countered that the problem is not the quantity of employment but its quality. Less than the desired number of 'good jobs' have been forthcoming. The term 'jobless growth' has been used for both these problems, with little agreement over how to define or measure it.

A clear indication that all is not well on the employment front is the emergence of large social movements for the expansion of reserved quotas in government jobs for traditionally dominant castes, such as Jats, Patels, and Marathas. Another related symptom is the extent to which even the lowest paid government jobs attract large numbers of overqualified applicants.

The enormous demand for government jobs comes as no surprise once we take a look at the numbers on job quality as well as quantity. According to the Employment-Unemployment Surveys of the Labour Bureau (LB-EUS), the total volume of employment in the Indian economy shrank between 2013 and 2015. That is, more jobs were destroyed than created. On the quality front, the same data reveal that workers receiving a regular salary account were less than 20 per cent of all workers. A household earning over ₹1 lakh per month is in the top 0.2 per cent of income earners in the country. 67 per cent of households report monthly earnings of ₹10,000 or less (Ministry of Labour and Employment 2016). Meanwhile, the lowest government salary under the Seventh Central Pay Commission is much higher at ₹18,000 (Ministry of Finance 2015).

The debate on jobs, especially in the past two years, has suffered from lack of up-to-date, reliable data. As of the writing of this report, no official survey data at the national level are available after LB-EUS 2015. This is all the more unfortunate given that two policies, the demonetisation of high-value currency notes in 2016, and the introduction of the Goods and Services Tax (GST) in 2017, had a major impact on the labour market in general and the informal sector in particular.

In the absence of government data, the only source for national level employment

numbers is the new survey series started by the Centre for Monitoring the Indian Economy in collaboration with the Bombay Stock Exchange in 2016 (BSE-CMIE 2017). The news from these surveys is not good. They also show an absolute fall in the size of the workforce, or in other words, net job destruction.[1]

On the quality front, the official response to the allegation that not enough formal jobs are being created has been to redefine formality. A task force of the top economic policymaking body – the NITI Aayog – charged with reviewing the state of employment data recommended that formal employment be redefined more 'pragmatically' to include workers covered under various provident funds, insurance, or pension schemes as well as workers subject to tax deduction at source (NITI Aayog 2017, p.16). This was suggested since written contracts are rare in India. This definition increases the size of the formal workforce to 15-25 per cent instead of the usually quoted figure of 7-10 per cent.

Subsequent to this redefinition, data on worker enrolment from the Employee Provident Fund Organisation (EPFO) have been used to argue for robust job creation in the formal economy (Ghosh and Ghosh 2018). This method too has come under criticism. We review this controversy in Chapter Four. In fact, there is no agreed upon definition of 'formal work', and as we show, the size of the formal workforce can vary enormously depending on the definition adopted.

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Definitions and data issues aside, however, it is clear that the jobs question has emerged into national consciousness as a salient social and political issue.

1.2 / Structural Change: Lewis-Kuznets Meet Gandhi-Ambedkar

In 1947, the newly independent India inherited an economy ravaged by decades of British colonial rule. Seventy years on, there is much success to show. The first forty years of independent India saw the foundations laid for a modern economy and solving the employment question was central to these efforts. Since the 2000s, India's growth has accelerated. However, many difficult tasks still lie ahead, principally that of achieving structural change.

In an economy with a large agricultural as well as a large informal sector, structural change has two aspects to it. The first is the movement of the workforce away from agriculture towards manufacturing and services. Since this stylised fact of the development process is often associated with the economist Simon Kuznets, we refer to it as the Kuznets Process (Kuznets and Murphy 1966; Ghose 2016). Owing to factors such as lack of formal education as well as other barriers to entry in the formal sector, the movement is most often into informal manufacturing or services.

A developing economy is thus a dual economy. It has a sector consisting of relatively larger firms that hire labour in accordance with considerations of profitability and growth. In India, this is known as the 'organised sector.' But the economy also has a second sector where the amount of available work is distributed among workers willing to work. In other words, labour demand adjusts to labour supply and the market always 'clears'. In this sector, there is no unemployment, only underemployed. This is the 'unorganised sector.'

The second aspect of structural change is thus the movement of the workforce from the unorganised to the organised sector. This is the Lewis Process, named after Arthur Lewis who first put forth the concept of 'unlimited supply of labour' (Lewis 1954; Ghose 2016). The Lewis Process involves eliminating underemployment not only in agriculture but in the unorganised sector in general by the creation of adequate work in the more productive and regulated organised sector.

The two processes of structural change are closely related to each other. But as we elaborate below, it is useful to separate them analytically.

[1] A recent study has challenged these findings (Bhalla and Das 2018), but the study suffers from critical flaws in method that render its conclusions invalid (see Box 2.1).

In the standard model of structural change from the mid-twentieth century growth needs to occur in those sectors that can create more jobs per unit increase in output (that is, sectors that have a high employment elasticity) with skill requirements that match the skill profile of the workforce. These are usually labour-intensive manufacturing industries.

But with the exception of a few economies, the Lewis-Kuznets Process has not unfolded in the expected manner. The 'benchmarks' for the process are the East Asian 'late' industrialisers such as Japan, followed by Korea and Taiwan, and finally China, who managed to create mass employment through increasing manufacturing activities. This required a judicious mix of industrial and trade policies that tied import-substitution to export-promotion, and protection from foreign competition alongside fostering of domestic competition (Wade 1988; Amsden 1992; Chang 2006). It also required a favourable international climate in the form of export markets and geo-political stability.

This path is more difficult today. Not only do firms in these countries have to compete with a much larger number of more productive competitors, but also their governments have, or think they have, fewer options with respect to trade and industrial policies. Added to this is a turn towards protectionism in the industrialised countries that further limits export prospects. As a result, in many developing countries across Asia and Africa, the manufacturing share of employment is declining instead of growing. Instead of industrialisation, we observe 'premature deindustrialisation.' That is, manufacturing reaches its peak share in output and employment at much lower levels of national income when compared to economies that underwent the transition earlier (Rodrik 2016; Amirapu and Subramanian 2015).

In India too, structural change has been slower than desired. The transition from an agrarian and subsistence-oriented informal economy of self-employed micro-entrepreneurs to a growth-oriented industrial and service economy consisting of large firms and regulated employment has been delayed.

But even this does not adequately capture the challenge. Two new dimensions need to be added to the conventional understanding of structural change. The first is the question of social equity: for whom are the new jobs and new opportunities created? The second is the question of ecology: does the transition improve our chances of surviving on the planet or make them worse? In India, in the twenty-first century, Lewis and Kuznets have to meet Ambedkar and Gandhi.

How has India fared on these tasks? This question is complex and cannot be answered in the space of this Introduction, or indeed even the entire report. We only initiate this exercise here.

1. The Kuznets Process is slowly underway: A key aspect of diversifying the economy, raising incomes and making them less volatile, is the creation of non-farm employment. This process is under way, albeit more slowly than was expected or may be desired. The result is that just under half of the workforce is still in agriculture, forced to share less than 20 per cent of the national income. Further, the failure to create adequate, decent employment in manufacturing and services for those leaving agriculture has meant an explosion of employment in the construction sector.

There is a need for employment policy to balance two objectives: rapid generation of decent non-farm employment and improvement of farm incomes. These need not be opposed to each other. Rather, they can act in concert. Rapid improvement in farm incomes will not only have immediate welfare implications for half the workforce, but it will improve working conditions in the rest of the economy as well.

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2. The Lewis Process is underway but there are contradictory forces at work:
Ghose (2016) estimates that around 100 million workers are either employed in very poor quality jobs or are out of the labour force because of unavailability of work. These are 'surplus workers' available to be pulled into the economy if jobs can be created. Another estimate of the surplus workforce that can be more productively employed elsewhere is the percentage of those employed in unorganised petty services such as retail, domestic work, and so on. As of 2016, this is estimated to be 78 million.

While the organised manufacturing sector has increased its share of employment at the expense of the unorganised sector, this has taken place via an informalisation of its workforce complicating the Lewis Process. Indeed, the understanding that structural change would mean larger enterprises, and larger enterprises would mean more formal and regulated employment has been challenged on both fronts: first, because of a dispersal of production from larger to smaller units, and second, because of the creation of an informal workforce subject to fewer regulations, within the organised sector. As a result, the share of formal employment has been increasing very slowly and the majority of the wage workforce is still informal. In addition, own-account workers constitute nearly half the total workforce. Thus, over 80 per cent of the Indian workforce remains informal.

3. Building equity into the Lewis-Kuznets Process:
The maturing of democracy in India both in the parliamentary and the social movement space over the past few decades has imposed welcome constraints on the traditional understanding of the Lewis-Kuznets Process. The traditional model is in some ways a model with 'empty places.' It does not specify who occupies which position in the new economy. But it is no longer possible to speak about structural change without asking if the process creates opportunities for marginalised, excluded, or oppressed sections of society.

This is a result of strong grassroots movements that have pushed equity considerations into the centre of the development process. While progress has been made in the form of lowering educational and earnings gaps, these remain high and significant occupational and industrial segregation also persists. Two examples will illustrate: one, the vast majority of workers who are outside the labour force but are willing to work are women, and two, the Scheduled Castes are vastly over-represented in the leather industry.

4. Building ecology into the Lewis-Kuznets Process:
People's movements have also arisen all over India (and the world) questioning models of development that do not take ecological constraints seriously. Resistance to displacement and dispossession as well as contestation over the use of land, forest, water, mineral, and other resources is now the norm. These movements have also brought the Eurocentric epistemic foundations of conventional development thinking into question. As with equity, a welcome trend is that we can no longer treat these issues as an add-on to the 'core' development process. This has the potential to overturn our notions of 'industry', 'efficiency,' and 'development'.

Naturally, each of these aspects requires a fuller treatment than we can give in a report of this nature. But this year's SWI begins the process to be continued in future editions.

1.3 / Overview of This Year's Report

The State of Working India is discussed under four broad headings: who is looking for work, where is the work, how good is the work, and who does the work.

Chapter Two (Who is looking for work?) is an analysis of the supply side of the labour market. A key finding here is the increase in the level of open unemployment since 2011, and its high incidence among young educated men. The chapter also analyses the issue of a low and falling rate of labour force participation, primarily among female workers. To the extent that low labour force participation is the result of young people taking up higher education, we point out that this defers the employment problem but also makes it more challenging as higher-educated workers will eventually look for jobs that are commensurate to their education and training. Lastly, we comment on the skill question, and propose that it is time to rethink our understanding of skill and how it can be provided, when most training happens on the job.

Chapter Three (Where is the work?) documents that the period between 2011 and 2015 was very different from the period between 2004 and 2011 in terms of structural change, with far slower generation of non-farm employment. We also discuss state-level variations in the Kuznets process. On the Lewis Process, we note that the organised manufacturing sector has shown a strong turnaround in the past decade in terms of its employment generation capacity. However, job growth in this sector has come at the cost of unorganised sector employment and the overall share of manufacturing in employment has not increased. Declining labour intensity is observed in almost every manufacturing industry, but it is unlikely that labour laws are responsible for the substitution of workers by machines. Evidence suggests that firms have continued to hire workers by circumventing the laws. We also identify manufacturing industries that have performed well in both job creation and wage growth.

Chapter Four (How good is the work?) delves into the issue of quality by looking at levels of formality and informality as well as growth in wages and productivity. There is large variation in formality across states but also some evidence for state-level convergence in levels of formality. There is a narrowing of the formal-informal wage gap due to faster growth of wages in the informal sector. Real wages have risen at the rate of 2-5 per cent depending on the sector. The significant exception is agriculture where, apart from an anomalous period from 2010 to 2014, real wages are mostly stagnant. Despite growth, however, wage levels remain far below the lowest recommended salary in the Seventh Central Pay Commission. In organised manufacturing, far more rapid increases in productivity compared to wages have led to a collapse of the labour share of income.

Chapter Five (Who does the work?) addresses the issue of labour market segmentation and discrimination. We show that the raw gender and caste earnings gaps have declined over time, but are still substantial at 65 per cent and 56 per cent respectively. The gaps vary considerably across types of employment, levels of education and sectors. They are larger for self-employment, for intermediate levels of education, and in the unorganised sector. Many manufacturing industries are over 80 per cent male and segregation has actually worsened in the past 10 years. On the other hand, segregation has reduced in services and female over-representation in poorly paid industries such as domestic work has reduced. Reservation or policies in public administration and education have had the desired effect of reducing caste segregation. Large caste-based movements for job quotas currently underway all across the country need to be seen in the context of this achievement.

Chapter Six, the concluding chapter reflects on the future of work and discusses the prospects for a National Employment Policy.

1.4 / A Note on Data and Definitions

Well-formulated policies rely on good-quality data. There are significant lacunae in India's labour statistics system that need urgent attention. The need for reliable, representative, high-frequency employment data has been repeatedly expressed in policy reports, academic literature, as well as in the popular and business press. The government has also admitted the lack (NITI Aayog 2017).

Since 2017, the National Sample Survey Organisation (NSSO) has initiated a Periodic Labour Force Survey (PLFS). This is a welcome development because the PLFS will be conducted quarterly in urban areas and annually in rural areas. However, it is unclear if the PLFS is intended as a substitute for the detailed, quinquennial NSS employment-unemployment survey (NSS-EUS). Further, two significant gaps remain:

1. Annual establishment surveys for all major sectors of the economy, namely, organised manufacturing, unorganised manufacturing, organised services, and unorganised services. Currently, only the first sector is surveyed annually by the Annual Survey of Industries (ASI).

2. Time-use surveys conducted at least every 5 years. In addition to yielding valuable information on underemployment and unpaid work, these can assist greatly in a re-examination of the systems of defining and measuring work so that women's unpaid work is also included in our System of National Accounts. The NSSO is reportedly working on such a survey and plans to conduct it in 2019.

3. A skill survey to be done at least every 5 years. Such a survey is needed to arrive at an accurate understanding of kinds of skills, methods of formal and informal training, and areas of deficit.

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Finally, in the past year there have been studies that use databases such as those of the Employee Provident Fund Organisation (EPFO) or the Employee State Insurance Corporation (ESIC) to study employment trends. The use of such administrative and other 'big' data is welcome. But it must be kept in mind that such data cannot substitute for household or establishment surveys.

We now list the data sources used in this report. Details are available in the chapter on Methods. A recent review of India's labour statistics system can be found in Papola (2014).

Unit-Level Survey Data:

1. Quinquennial Employment-Unemployment Surveys of the NSSO (NSS-EUS): 1993-94 to 2011-12. As of the writing of this report, there are no data from this source after 2011-12.

2. Annual Employment-Unemployment Surveys of the Labour Bureau (LB-EUS): We use the 2nd Round (2011-2012) and the latest 5th Round (2015-16). The Methods chapter discusses the comparability of the LB and NSS surveys.

3. Quinquennial unincorporated or unorganised enterprise surveys of the NSSO: There are several firm-level surveys of the unorganised sector with slightly differing criteria and coverage available from the 1990s. The most recent one was in 2015-16.

4. Annual Survey of Industries (ASI): Annual data on the organised manufacturing sector are available from 1982 to 2016 at the industry level, and from 2000 onwards at the factory level.

Data from Published Reports

1. Labour Bureau Quarterly Employment Surveys (LB-QES): There are no large-sample data available for organised services. To analyse employment in this sector we use the new series of the LB-QES (since 2016).

2. Reserve Bank of India data on Rural Wage Rates: These data are used to arrive at growth rates of rural wages. It is available at RBI database on Indian Economy.

3. Centre for Monitoring the Indian Economy (CMIE): The CMIE, in collaboration with the Bombay Stock Exchange, has been publishing reports called 'Unemployment in India: A Statistical Profile' since 2016. Three reports are published per year.

4. Reserve Bank of India – Capital, Labour, Energy, Material, Services (RBI-KLEMS) database: These are internationally comparable data on employment and output available at RBI KLEMS database.

5. International Labour Organisation statistical database (ILO-STAT): For international comparisons, we draw on this data.

We adopt the convention of using 'million' when discussing the labour force or the workforce and 'crores' when discussing rupee amounts. One crore is equivalent to 10 million. Surveys conducted over a fiscal year are referred to by the first of the two calendar years. For example, a survey conducted in 2011-12 is referred to by the year 2011.

Finally, it is important to note that in a country like India, where wage work accounts for only around half of the workforce and the labour force accounts for only a third of the population for women, the concepts of employment as well as work have to be different from those prevailing in developed countries. We discuss the implications of this as appropriate in the text.

1.5 / SWI Background Papers 2018

A team of scholars, journalists, activists, and policy-makers has produced a set of 18 high quality background papers for this year's SWI. The present volume draws on these studies as well as original work carried out at the CSE, in addition to bringing together relevant recent research and policy material. The background papers, listed below, will be published separately as Volume Two of this year's report.

Amit, and Nayanjyoti. 2018. "Changes in Production Regimes and Challenges to Collective Bargaining: A Study of the Gurgaon Industrial Belt." SWI Background Paper 2018–18. Azim Premji University.

Azad, Rohit, and Shouvik Chakraborty. 2018. "A Policy Proposal for Green Jobs in India." SWI Background Paper 2018–6. Azim Premji University.

Basole, Amit, and Amay Narayan. 2018. "Long-Run Performance of the Organised Manufacturing Sector in India: Aggregate Trends and Industry-Level Variation." SWI Background Paper 2018–19. Azim Premji University.

Basu, Deepankar. 2018. "An Approach to the Problem of Employment in India." SWI Background Paper 2018–1. Azim Premji University.

Bhattacharya, Rajesh, and Sarmishtha Sen. 2018. "Pride and Prejudice: The Condition of Handloom Weavers in West Bengal." SWI Background Paper 2018–16. Azim Premji University.

Jayadev, Arjun, and Amay Narayan. 2018. "The Evolution of India's Labour Share and It's Correlates." SWI Background Paper 2018–4. Azim Premji University.

Kapoor, Radhicka. 2018. "Understanding the Performance of India's Manufacturing Sector: Evidence from Firm Level Data." SWI Background Paper 2018–2. Azim Premji University.

Mehrotra, Santosh. 2018. "The Indian Labour Market: A Fallacy, Two Looming Crises and a Tragedy." SWI Background Paper 2018–9. Azim Premji University.

Mondal, Bidisha, Jayati Ghosh, Shiney Chakraborty, and Sona Mitra. 2018. "Women Workers in India: Labour Force Trends, Occupational Diversification and Wage Gaps." SWI Background Paper 2018–3. Azim Premji University.

Nagaraj, R. 2018 "Of 'Missing Middle', and Size-Based Regulation: A New Frontier in the Labour Market Flexibility Debate." SWI Background Paper 2018–7. Azim Premji University.

Narayanan, Rajendran, Sakina Dhorajiwala, and Rajesh Golani. 2018. "Analysis of Payment Delays and Delay Compensation in NREGA: Findings across Ten States for Financial Year 2016-17." SWI Background Paper 2018–5. Azim Premji University.

Natrajan, Balmurli, and Rajesh Joseph. 2018. "Domestic Workers and the Challenges of Collective Action in Informal Work." SWI Background Paper 2018–11. Azim Premji University.

Shrivastava, Aseem. 2018. "Recrafting Indian Industry: A Note." SWI Background Paper 2018–10. Azim Premji University.

Srija, A. 2018. "Fourth Industrial Revolution: Realizing India's Demographic Dividend." SWI Background Paper 2018–8. Azim Premji University.

Talwar, Anuradha. 2018. "Hard Work, Low Pay : Work Patterns Among Rural Women in West Bengal." SWI Background Paper 2018–14. Azim Premji University.

Thomas, Jayan Jose, and Chinju Johny. 2018. "Labour Absorption in Indian Manufacturing : The Case of the Garment Industry." SWI Background Paper 2018–15. Azim Premji University.

Unni, Jeemol, and Ravikiran Naik. 2018. "Gender Differentials in Expansion of Informal Enterprises." SWI Background Paper 2018–12. Azim Premji University.

Yadav, Anumeha. 2018. "Bijolia's Harvest of Stone: Conditions of Work Among Quarrying Labour in Rajasthan." SWI Background Paper 2018–13. Azim Premji University.