

# Changing Employment Scenario in the Organised Manufacturing Industries: A Formal-Informal Dichotomy

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## Abstract

The employment apparatus of our economy has been undergoing certain structural changes with the advent of globalization. The nature of employment is changing. A major chunk of newly created jobs in the organised manufacturing sector falls in the informal category. There has been an increasing use of informal workers. This has been accompanied by deterioration in the quality of jobs being created. The present paper examines the trends and implications of the contractualisation phenomenon in the organised manufacturing sector.

## I. INTRODUCTION

The employment fabric of India's organised manufacturing sector has undergone substantive changes over the three decades with an exorbitant rise in the quantum of contract workers. The proliferation of contract workers reflects significant contractualisation of the workforce which seems as an irreversible trend. India is one of the countries where contractualisation is the highest. Even in the formal sector, the share of informal workers (casual & contract workers) has been increasing over the years. Reforming the so-called stringent labour laws has often been cited to stimulate manufacturing investment in India. It is often argued that the current labour regulations dissuade investment. In a nutshell, lack of labour flexibility works as an impediment. It is also emphatically argued that the so-called the stringent labour laws force real wages to remain way above than warranted. This stifles profitability. Does this argument hold water?

This contractualisation of labour phenomenon has given rise to some important concerns. It has been pointed that one of the concomitant problems of contractualisation is the increasing vulnerability of workers. The phenomenon of contractualisation has taken the form of formal sector firms increasingly employing contract and casual workers. The informal workers are workers who do not have access to trade union representation and employment protection laws or other benefits of formal sector employment. There have been some attempts to study the phenomenon of contractualisation in the organized manufacturing sector of the Indian economy. Most of them are micro level studies. Very few have been made at the macro or aggregate level. And even if there have been some, the scope of the studies has not been extended to the wider organized manufacturing sector. In simple terms, there is a serious research gap.

The present study is relevant because it is based on the entire set of industries under the organised manufacturing sector.

This analysis is confined to organized manufacturing because this segment provides a test case for judging the impact of labour market flexibility on account of the existence of large-scale and old industries with better organised labour and adherence to labour relations. In addition, this sector is well integrated with the rest of the world through exports and FDI.

This analysis attempts to capture some of the dynamics of contractualisation in the organized manufacturing sector. This study investigates the effects of economic growth on the incidence of informal workers in the Indian manufacturing sector since 1990. In other words, the study investigates the phenomenon of contractualisation in the organized manufacturing sector. Putting it differently, the cardinal objective of the study is to assess the phenomenon of contractualisation which is rampant in the organized manufacturing sector particularly in the post-reform period. Broadly speaking, this paper is an attempt to examine the factors that have driven the contractualisation process in organised manufacturing and to understand the implications of the increasing use of informal workers.

Against this backdrop, the study has the following broad objectives:

- To trace the trends in informal employment in the formal manufacturing sector.
- To determine the factors responsible for growing contractualisation in the organised manufacturing sector.
- To analyze whether the labour flexibility argument has any empirical foundation.
- To find out the relationship between growth of contractualisation in the organised manufacturing sector and economic growth.

## II. LITERATURE REVIEW

A couple of studies have shown that labour regulations have been responsible for the proliferation of informal workers in organized manufacturing industry (Sen et al. 2010; Saha, et al. 2013; Ramaswamy, 2003). Some

studies (Goldar and Aggarwal, 2012) have shown that import competition has accelerated the contractualisation phenomenon in the organised segment. In a survey of about 1,300 manufacturing firms across nine industry groups, Deshpande et al., (2004) examine the determinants of the levels and changes in employment in the organised sector of the manufacturing industry between 1991 and 1998.

Many scholars (e.g., Dutta, 2003; Ramaswamy, 2003; Sharma, 2006; Gupta et al., 2008; Ahsan and Pagés, 2008) are of the opinion that the use of informal workers provides a means of getting around the labour regulations. Maiti et al. (2009) and Sen et al. (2010) present econometric evidence that indicate that stringent labour regulations have led to greater use of informal workers. Guha's paper (2006), analyzing labour market flexibility in Indian manufacturing, does not find any statistically significant impact of labour market flexibility on growth rates in respect of output and employment.

### III. DATA SOURCE

This study is based on the data obtained from the Annual Survey of Industries (ASI). ASI covers the industrial units registered under the Factories Act, 1948. The data consist of two series corresponding to: (a) the census sector, and (b) the factory sector. The census sector consists of only those units, which employ, on an average, 50 workers or more (with the aid of power), and 100 persons or more (without the aid of power). The factory sector includes units, which employ more than 10 workers.

### IV. CONTRACTUALISATION: ALL INDIA ANALYSIS

Contractualisation of work has become a permeating characteristic of both public and private sectors. There has been a drastic increase in the contractual/informal worker component. Consider the data from the Annual Survey of Industries on the use of contract workers in organised manufacturing. Chart 1 demonstrates that there has been a consistent and substantial increase in the share of non-regular workers. The absolute number of such workers has also been on the rise. The trend of contractualisation was particularly pronounced since the mid-2000s. This simply shows that during the economic boom phase, the Indian manufacturing sector was relying more on non-regular labour. In other words, economic growth did not result in the formalization of work.

CHART 1

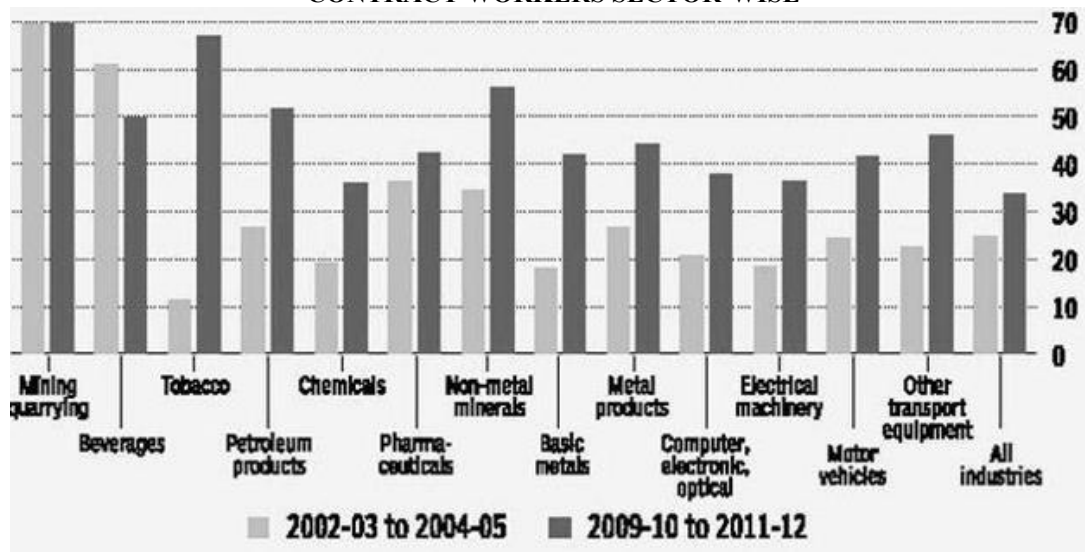
SHARE OF CONTRACT WORKERS IN REGISTERED MANUFACTURING



Source: *Annual Survey of Industries*

The contractualisation trend was more discernible in some sub-sectors within the organised manufacturing industry. Chart 2 sheds light on this.

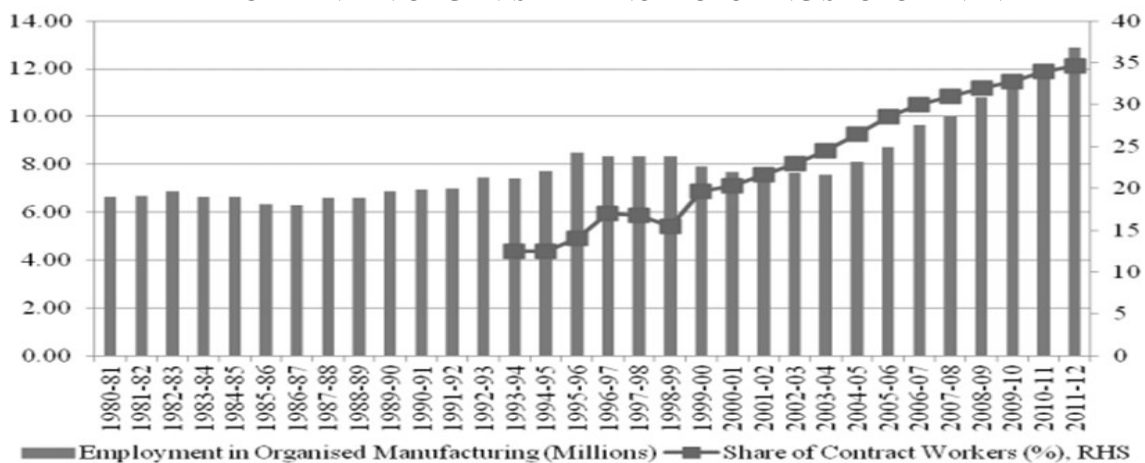
CHART 2  
 CONTRACT WORKERS SECTOR-WISE



Source: *Annual Survey of Industries*

Highest proportion (two-thirds) of contract labour has been noticed in mining and quarrying. In tobacco, chemical products and non-metallic industries, increase in the use of contract workers has been striking. Substantial proliferation of contract workers is noticed in the transport sector as well. Chart 3 shows the evolution of employment in organised manufacturing from 1980 onwards.

CHART 3  
 EMPLOYMENT IN ORGANISED MANUFACTURING SECTOR IN INDIA



Source: *Annual Survey of Industries*

It is clear that employment in organised manufacturing stagnated for more than a decade before the advent of reforms in 1991-92. Thenceforth, it grew slowly before starting to ebb in 1998-99. After 2001-02, employment in organised segment has shown robust growth and finally in 2011-12 reached the peak of 12.88 million.

ASI data do show that a major chunk of the increase in employment has been accounted for by contract labour. A cursory glance at the data would reveal that contract labour went up from 1.21 million in 2000-01 to about 3.40 million in 2011-12. The share of contract workers has registered a dramatic increase. The contribution of contract works moved up from 20.28 per cent in 2000-01 to 34.63 per cent in 2011-12. The spectacular increase in the share of contract workers in the organised manufacturing sectors has been across the board in the sense that it did affect virtually all the industrial segments. Table 1 sheds light on this.

TABLE 1  
 ACROSS THE BOARD INCREASE

NIC (2008) Code	Product description	Share of contract workers (%)		
		2000-01	2005-06	2011-12
131	Spinning, weaving and finishing of textiles	08.26	11.45	13.38
239	Manufacture of non-metallic mineral products n.e.c.	34.45	51.05	58.15
107	Manufacture of other food products	09.00	10.59	17.29
141	Manufacture of wearing apparel, except fur apparel	05.76	13.32	15.21
241	Manufacture of basic iron and steel	23.74	33.63	45.94
293	Manufacture of parts and accessories for motor vehicles	12.68	31.61	46.27
120	Manufacture of tobacco products	63.39	68.36	65.51
210	Manufacture of pharmaceuticals, medicinal chemical and botanical products			43.93
259	Manufacture of other fabricated metal products; metalworking service activities	20.38	30.87	37.73
222	Manufacture of plastics products	16.30	28.26	30.42
202	Manufacture of other chemical products	17.77	29.87	29.79
106	Manufacture of grain mill products, starches and starch products	34.80	42.99	41.41
281	Manufacture of general purpose machinery	11.93	24.11	34.54

Source: *Annual Survey of Industries*

Table 2 exposes a wide disconnect. The data show in unequivocal terms that that contract workers in the organised segment of the manufacturing sector were paid about 70.98 per cent of the wages of directly employed workers per workday worked. The period under consideration is 2008-09 to 2011-12.

TABLE 2  
 GLARING  
 DISCONNECT

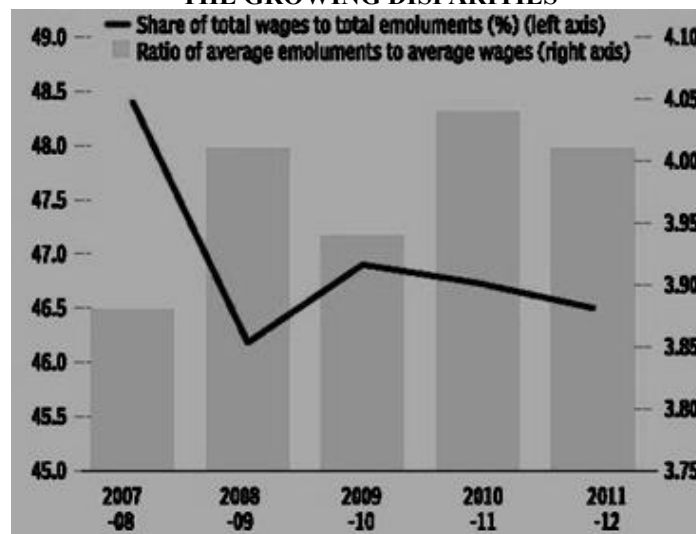
Year	Directly employed workers	Contract Workers	Contract Workers wage as proportion of directly employed workers
2008-2009	235.16	160.53	68.26
2009-2010	261.94	193.87	74.01
2010-2011	308.82	218.76	70.84
2011-2012	347.79	246.2	70.79
Average			70.98

Source: *Annual Survey of Industries*

A cursory glance at the Annual Survey of Industries for 2011-12 would reveal two things in a crystal clear manner. The first one is this. Total wages and salaries (emoluments) added up to only 4.5 per cent of the total input costs in the factory sector. Wages of workers constituted only 2.1 per cent. I am at a loss to understand the proposition which has been put forward by the advocates of labour reforms. Would bringing down the wages of workers have any drastic impact on the profitability of firms in the organised manufacturing sector? The answer is an emphatic No. Please keep in mind that the total emoluments do include the salaries and other perks received by those who are not categorized as workers. This includes supervisory and managerial segments. This segment made up around 45 per cent of other workers in 2011-12.

Chart 4 calls attention to an important fact. Workers' share constitutes well below half of the total emoluments paid in spite of the fact that workers dominate in total factory employment. A noteworthy fact is that the share of workers' wages to total emoluments has been waning. Since 2007-08, the ratio of other emoluments per capita to average workers' wages has been on the rise. To put it differently, wages constitute a smaller share of the total wage and salary bill, and payments to non-workers have on an average been sloping upward faster than payments to workers.

CHART 4  
 THE GROWING DISPARITIES

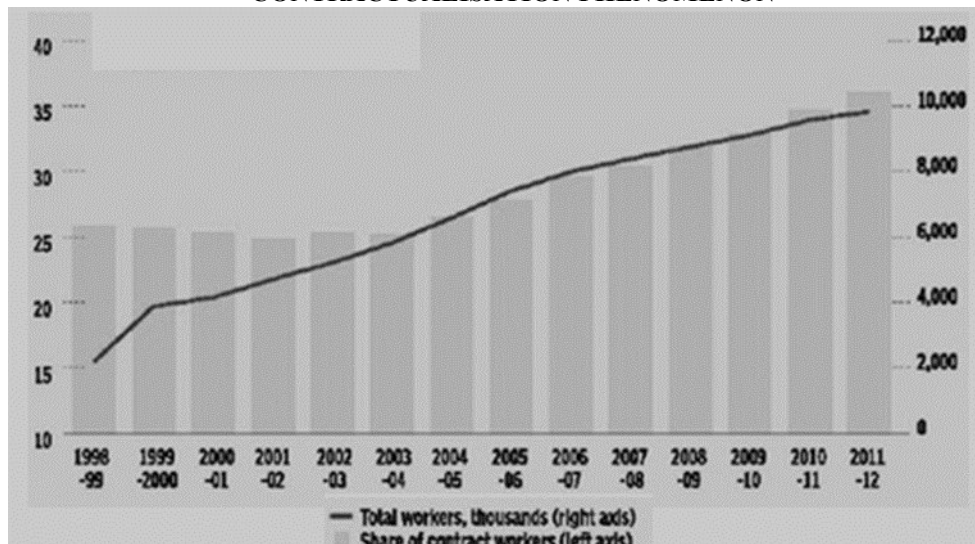


Source: *Annual Survey of Industries*

How would you explain the broadening gulf between the wages of workers and the remuneration to managers and supervisory staff? There is a multitude of factors which are at play. Undoubtedly, one of the important factors which are getting prevalent in the organised manufacturing sector is the increasing dependence on contract labour. This does help firms to keep the wage bills relatively low.

Chart 6 exhibits one thing in unambiguous terms. The share of contract workers in total workers has ascended drastically over the past decade. Since 1998-99, it got more than doubled. In 1998-99, the share of contract workers was approximately 15 percent. In 2011-12, the share stood at 35 percent.

CHART 6  
 CONTRACTUALISATION PHENOMENON

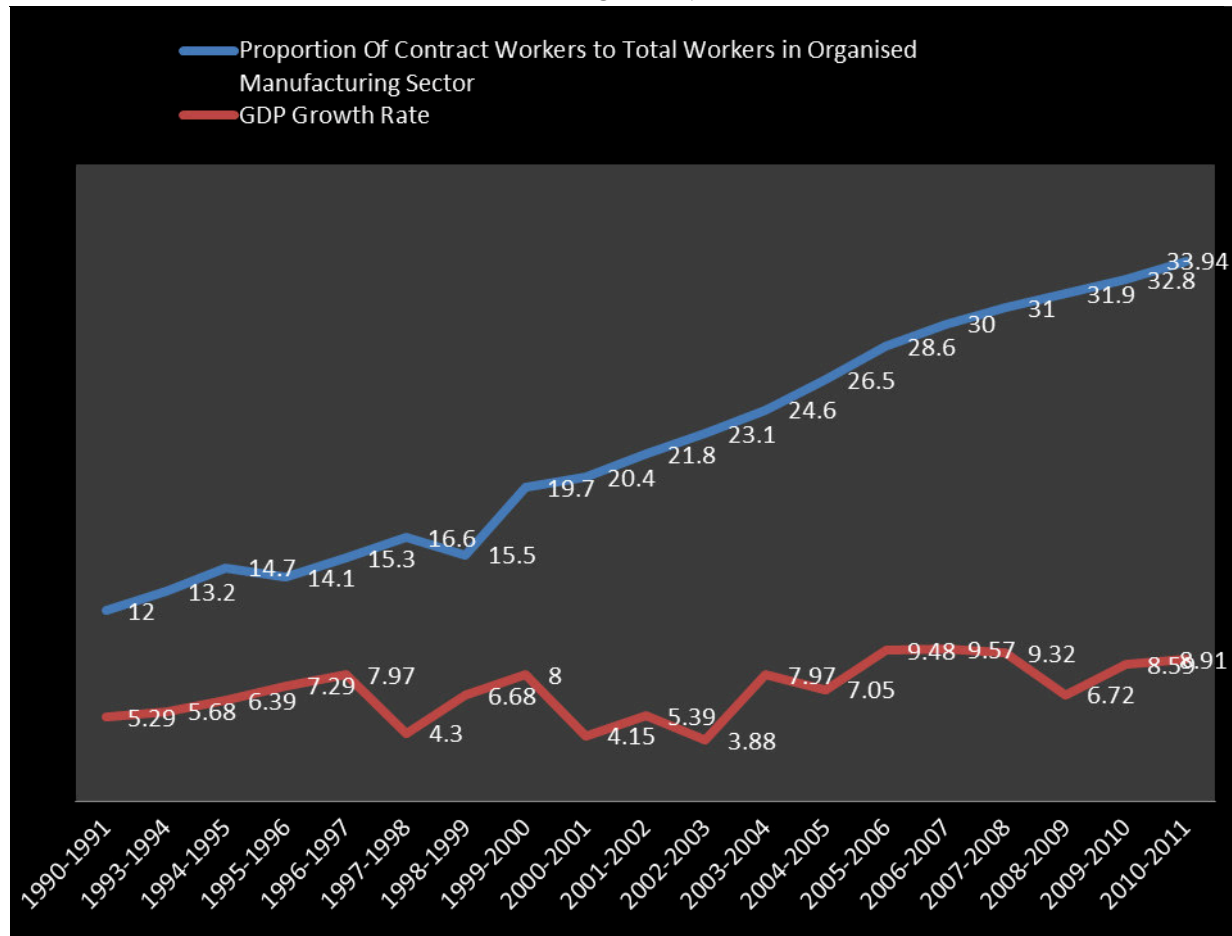


Source: *Annual Survey of Industries*

It is easier to suppress the wages of contract workers because they have comparatively weaker bargaining power. It could be safely argued that employers use contract workers as a means of circumventing many legal provisions for workers' protection. This very fact takes the meat out of the vociferous argument of labour flexibility. To conclude, the hue and cry for labor market flexibility is ludicrous, to say the least.

Chart 7 sketches out relation between economic growth and contractualisation of employment in the organised segment of the manufacturing industry. Conventional economic wisdom suggests that contractualisation would fade away as industrialization and development proceeds. This prediction (Keith Hart-Kenya Mission 1973) was falsified in the Indian scenario. In the Indian case, the informal sector not only grew at an alarming pace but also presented itself within the formal sector.

CHART 7  
**COMPARISON OF ECONOMIC GROWTH AND RATES OF CONTRACT EMPLOYMENT**



Source: *Annual Survey of Industries*

It is indisputable fact that the reforms initiated in 1991 put the Indian economy onto a higher growth trajectory. But this growth has been accompanied by the burgeoning of the contractualisation phenomenon with the organized manufacturing sector which is clearly shown by the above chart. The share of contractual employment was 12% in 1990. It has shown a steady ascension since the onset of reforms except the small dips registered in 1995 and 1998. In 2010-11, the share of contractual employment stood at 33.94%.

#### V. STATE LEVEL ANALYSIS

It would be interesting to see the level of contractual employment in the states of India This data is presented in Table 3 given below. Andhra Pradesh had the highest level of increase during the period 1985 – 2002. Positive change to the lowest degree was observed in Kerala.

TABLE 3  
 SHARE OF CONTRACT LABOUR IN THE FACTORY BY STATE AND PERIOD

States	1985	1990	1995	2002	Increment/Decrement 1985 to 2002
Andhra Pradesh	33.8	39.9	49.2	62.1	28.28
Assam	8.2	6.4	7.9	3.95	4.25
Bihar	9.8	8	7.8	22.1	12.28
Delhi	7.5	7.4	4.8	7.64	0.11
Gujarat	14.5	19.9	23.5	31.3	16.77
Haryana	19	9.9	14.8	28.1	9.07
Jammu and Kashmir	25.4	8	16.1	31.6	6.15
Karnataka	11.5	10.4	8.1	9.33	2.17
Kerala	1.6	1.8	1.5	2.33	0.73
Madhya Pradesh	13.6	23.1	21.5	23.9	10.34
Maharashtra	5.7	6.4	12.8	16.3	10.64
Orissa	30	26	28.7	40.1	10.14
Punjab	19.1	8.8	10.8	14.3	4.78
Rajasthan	8.8	13.2	14.1	22.3	13.45
Tamil Nadu	6.9	5.2	4.4	7.21	0.31
Uttar Pradesh	14.2	12.6	13.5	25.9	11.72
West Bengal	4.6	5.1	5.3	7.63	3.03

Source: *Annual Survey of Industries*

In Table 4, I present the share of contract workers in total workers for the 15 states during the time period 1998 - 2004. All states have seen an increase in the share of contract workers in total workers over the period 1998-2004. Bihar, with 53 per cent is the state with the highest share of contract workers in total workers in 2004. With 7 per cent Kerala is the state with the lowest share of contract workers in total workers in 2004.

TABLE 4  
 SHARE OF CONTRACT WORKERS IN TOTAL WORKERS IN DIFFERENT STATES

States	Share of Contract Workers in Total Workers	
	1998	2004
Andhra Pradesh	0.15	0.51
Assam	0.08	0.14
Bihar	0.46	0.53
Gujarat	0.26	0.33
Haryana	0.31	0.41
Karnataka	0.08	0.13
Kerala	0.04	0.07
Madhya Pradesh	0.16	0.28
Maharashtra	0.15	0.27
Orissa	0.27	0.36
Punjab	0.19	0.27
Rajasthan	0.21	0.33
Tamil Nadu	0.09	0.13
Uttar Pradesh	0.22	0.29
West Bengal	0.06	0.14

Source: *Indian Labour Yearbooks and Annual Survey of Industries*.

Table 5 shows that contract labour employment has increased in all the states considered during 1993–94 to 2006–07, though the magnitude of increase varied among the states.

TABLE 5  
**PROPORTION OF CONTRACT WORKERS IN TOTAL REPORTED NUMBER OF WORKERS FOR THE FACTORY SECTOR IN SELECTED STATES IN INDIA**

States	1993-4 to 1994-5	2004-05 to 2006-07
Andhra Pradesh	36.21	52.35
Gujarat	21.87	34.28
Haryana	21	44.12
Himachal Pradesh	6.55	21.15
Karnataka	7.89	14.28
Kerala	1.79	10.52
Madhya Pradesh	15.38	26.81
Maharashtra	10.31	31.27
Punjab	11.1	28.93
Rajasthan	10.98	33.51
Tamil Nadu	6.27	14.07
Uttar Pradesh	11.95	31.48
West Bengal	7.35	18.75

**Source:** *Annual Survey of Industries*

Contract labour accounts for a substantial chunk of the total workers in Andhra Pradesh (52.35 per cent), Haryana (44.12 per cent), Gujarat (34.28 per cent), and Rajasthan (33.51 per cent). In Kerala, West Bengal and Tamil Nadu, the relative incidence of contract labour appears to be lower, though ascending.

## V. CONCLUDING OBSERVATIONS

It is an indisputable fact that the kind of jobs burgeoning up — “informal”— have serious and far reaching implications. It is very disappointing to notice the new trend of increasing contractualisation of workforce in the formal (organized) manufacturing sector. The increasing contractualisation of workforce has degenerated the standard of jobs which are being created. It deprives the workers of legitimate benefits. The above exposition also shows that the argument for more labour flexibility is fallacious, illogical and baseless. I do believe with strong conviction that the demand for more reforms to flexibilise Indian labour market lacks adequate factual support.

India has become one of the two large economies of the world that have been growing faster than any other large economy. In fact, India has now recently overtaken China to become the fastest growing major economy. Nonetheless, employment in total and in non-agricultural sectors has not been growing. This jobless growth in recent years has been accompanied by growth in casualisation and contractualisation.

Since 1990's onwards, the growth rate of regular employment in the organised sector has slowed down. However, this deceleration trend is accompanied by the unprecedented growth in the contract workers in the manufacturing sector. Indian firms prefer to use contract workers relative to regular workers. In other words, there has been an increasing use of temporary workers employed through contractors (contract workers), who are not represented by trade unions and who do not fall under the purview of the labour laws that are applicable to directly employed workers (formal workers) in formal labour markets. The number of non-regular workers, especially contract workers, increased substantially in the post-liberalization period, and especially in the 2000s.

This has been accompanied by deterioration in the quality of jobs being created, reflected in the sharp increase in the share of contract workers over time. In other words, manufacturing industries have already achieved substantial labour market flexibility through increase in the share of non-permanent workers. By resorting to contract employment, an employer can get around some of the constraining regulations of IDAs. Labour regulations like employment protection legislation in India are size-dependent rules and therefore constitute a basis for threshold effects. Firms could use non-permanent workers to stay below the legal establishment size threshold of 100 workers. Firms are often observed to use contract workers (secondary workers and labour outsourcing) to stay below the legal threshold size to escape labour regulations.

The growing contractualisation of workforce through casualisation and contract recruitment resulted in the rise in job insecurity. The increasing contractualisation of employment has gradually eroded the strength of trade unions. The space for collective bargaining has been shrinking. The institutional conditions for exercising trade union and collective bargaining rights need to be strengthened. There cannot be a compromise on this front. There is a need for “effective implementation of labour laws”. This calls for an effective labour governance system. In other words, it must be ensured that the contract workers are protected with the various provisions of laws: minimum wages, timely payment of wages, safety and welfare provisions at the worksite, ESIS and PF benefits etc.

The need of the hour is to adopt a cautious and balanced approach towards labour market flexibility.



The challenge before the Indian industrial relations system is to machinate a framework, which combines the efficiency of the enterprises with the interests of workers. The chief consideration of employers would be to hire workers based on skill and invest in these skills over time rather than whether the worker can be hired on a contract or permanent basis. This would likely to be a win-win situation both for firms and the workers they employ. The most important conclusion that follows from the study is that the objective of labour reforms should be 'maximizing employment', in terms of quantity and quality and social development.

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