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**Employment in the development
agenda: Economic and social
policies**

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International Institute for Labour Studies Geneva

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Preface

The International Institute for Labour Studies collaborated with The Indira Gandhi Institute for Development Research, Mumbai, India in organizing a national workshop on “A Development Agenda for Employment and Decent Work in India”. The conference was held at the Indira Gandhi Institute campus in Mumbai during 10-11 August 2006.

The purpose of the workshop was to bring together a group of leading Indian academics and policy practitioners for an in-depth review of the conditions and strategies for development that could deliver decent work outcomes for all. It carried out a detailed assessment of the main theme in relation to three topics, namely: (1) Economic and social policies for embedding employment in the development agenda; (2) Global value chains and their impact on employment and incomes at local level; and (3) Social regulation and protection in the informal economy.

The present paper, focussing on the strategies and means for embedding employment in the development agenda, was prepared by Professor T. S. Papola, Honorary Professor, Institute for Studies in Industrial Development, New Delhi and President of the Indian Society of Labour Economics, for the purpose of facilitating discussions at the Mumbai workshop. It generated a good deal of debate, in the course of which a number of important suggestions were made on how the researchers and policy practitioners of India should address the employment problem and how they could develop practical solutions, taking into account the overarching concerns for growth, productivity and equitable distribution. The paper has been revised in the light of comments and feedback received at the workshop.

Gerry Rodgers
Director
International Institute for Labour Studies

Executive summary

Employment has been an important element in India's development strategy. Successive Five Year Plans have included it among their objectives and have often set explicit targets for the number of jobs to be generated during the Plan period. It has not been found feasible to internalize employment in the core plan model, but several mechanisms have been devised and used to ensure that economic growth is accompanied by reasonable growth in employment. They include faster output growth in the employment-intensive sectors and macroeconomic and sectoral policies to encourage the use of labour-intensive technologies.

Government has also played a direct role in generating employment and ensuring minimum qualitative safeguards for the workers. Employment directly in the government expanded with the state assuming the dominant role in providing not only administrative, but also social and economic services. Government has also been responsible for creating employment on an increasingly larger scale over the years in enterprises which it owned and ran in economic sectors regarded as vital. The public sector also set qualitative standards for employment, thus playing the role of the "model" employer to be followed by the larger private sector. The Government also legislated to ensure these standards, specially in the larger private sector enterprises.

In spite of these measures, the challenge on the employment front has become greater over the years. Employment growth has not kept pace with the increase in the labour force. Paradoxically, growth in employment has decelerated sharply during the period of significant economic growth since the reform. As a result unemployment, which was already on the rise, increased rapidly during the 1990s. The share of the organized economy, consisting of the public sector and relatively large units in the private sector, has seen a decline; and, as a result, the overall quality of employment and degree of social protection of workers has deteriorated. Also, a large number of the employed continue to derive very low incomes from their work, as reflected in a much larger incidence of poverty compared with the incidence of unemployment.

The deceleration in employment growth in recent years which coincides with high growth of GDP is an intriguing phenomenon that needs to be probed. What development planning and policy can do to make growth more employment intensive is a major challenge facing economic analysts and policy makers. Is a growth model that brings employment centre-stage feasible? Even if growth is accompanied by a larger increase in employment, the present trend suggests that most new jobs are likely to be in the unorganized segment of the economy, which is characterized by low earnings and absence of social protection. How to ensure a minimum measure of social protection to the overwhelming majority of workers in the unorganized sector is another major challenge facing researchers and policy makers.

The problem is made more complicated by the "conflict" that certain economists and employers have projected between employment and labour standards. According to them, employment growth in the organized sector has been inhibited by protection provided to workers by labour laws prescribing certain standards. And if some of these protective measures are extended to the unorganized sector as well, employment generation in that sector will also be restricted. In fact, the ongoing debate on "labour reforms" is focused on the "inflexibility" engendered by labour laws in hiring and firing and modes of labour use in the organized sector. More empirical research and analysis is needed to examine the underlying propositions of this debate so as to arrive at a reasonable resolution. At the same time, the desirability, feasibility and mechanisms to improve the quality of employment and provide minimum social protection to workers in the unorganized sector require serious analysis and debate. In fact, we need to give serious consideration to the possibility that different treatment of workers in enterprises below a

certain threshold size may itself be responsible for the increase in employment in unprotected categories.

A major initiative taken by the Government recently is the passing of the National Rural Employment Guarantee Act (NREGA) and the launching of employment programmes in selected districts across the country. There have been a number of special employment programmes in the past designed to provide supplementary employment and incomes to poor households in rural areas. The distinctive feature of the NREGA is the legal guarantee to households to provide up to 100 days of work at statutory minimum wages. The programme will eventually be implemented in all districts of the country. Seen as a step in the direction of securing the right to work and given the scale at which it will operate, the law and the programme raise several economic, social and political expectations that need to be realistically assessed. The central question is: Will the NREG programme be just another wage employment programme, or will it lead not only to sustained poverty alleviation but also to social and political mobilization and equitable socio-economic development in rural India?

This paper highlights the following major questions for debate and research on employment in India at the present juncture. *One*, how to reverse the trend of decelerating employment growth and declining employment intensity coinciding with the high rate of economic growth that has followed economic reforms and liberalization? *Two*, what factors have caused the sharp decline in employment growth in the organized sector and how can their impact be mitigated? The question of labour flexibility and reform needs to be closely examined in this context. *Three*, given the fact that the overwhelming majority of employment is in the unorganized sector and most new employment is also generated there, how can a minimum degree of social protection be extended to the mass of unprotected workers in this sector? *Four*, what can realistically be expected from the NREGA in terms of poverty reduction, social mobilization and rural development and how can we ensure that it meets its objectives effectively? Last, is the development model currently in vogue inevitable in a globalized world, or is there an alternative development path that combines growth with livelihood and social security for the maximum number of people, instead of tending to increase the insecurity and vulnerability of ever greater numbers of workers?

Employment in the development agenda: Economic and social policies

T.S. Papola

Employment has featured on the development agenda in India right from the initiation of development planning after Independence. The priority and emphasis it has received in development strategy and policy have, however, varied from time to time. When India embarked on a strategy of industrialization-based development in the 1950s, employment was not perceived to be a major issue in so far as a relatively faster growth of the economy as envisaged in the consecutive Five Year Plans was expected to generate enough employment, particularly in industry, to take care of the supposedly moderately growing labour force and the small backlog of unemployment at the time. Ensuring a regular and adequate supply of suitably skilled workers was thought to be a matter of greater concern. The quality of employment, in terms of reasonable wages and social security measures against the common risks of work and life was, however, considered a concern that the state should address.

The public sector, providing these conditions to its employees, was regarded as a “model employer” and expanded its workforce continuously for about four decades. Also, where private sector enterprises failed, the Government took them over with a view to, inter alia, protecting employment. The private sector was expected to follow the rules of employment as laid down in various laws and agreements so as to protect employment and ensure its quality.

Employment emerged as an important concern in the development agenda around the middle of the 1970s, when it was realized that the economic and demographic performance of the economy had fallen short of earlier expectations and as a result unemployment was increasing. A two-pronged strategy was adopted: on the one hand, efforts were introduced to make development more employment oriented, by encouraging the growth of employment-intensive sectors and including employment among the objectives of macroeconomic and sectoral policies; on the other hand, special employment programmes were introduced to create both short-term wage employment and self-employment.

The beginning of the 1990s saw the initiation of economic reforms, involving the deregulation of domestic economic activities and the liberalization of the foreign trade and investment regime. The public sector was no longer seen as an employment provider; it has, in fact, experienced an absolute decline in employment in recent years. Faster economic growth resulting from liberalization, was, however, expected to lead to the expansion of employment. The economic growth rate has accelerated but employment growth has seen a deceleration. And most new jobs are located in the informal sector with low earnings and no social protection. Are these developments only the initial effects of a sudden change in the economic policy regime? Will sustained faster growth lead eventually to higher growth of quality jobs? Will the sharp dichotomy and dualism in the labour market and the worsening income distribution that have occurred since liberalization thus be moderated? These questions need investigation.

In the meantime, some initiatives designed to infuse a degree of redistribution and social justice need to be noted. The most important among them is the National Rural Employment Guarantee Programme being implemented in 200 districts under an Act of Parliament guaranteeing 100 days employment in public works to every rural household. The questions relating to its coverage, effectiveness in poverty alleviation and asset creation need to be examined as well as the financial implications particularly when it is implemented all over the country. Side by side with the demand for reforms to introduce greater flexibility in the use of

labour, initiatives for providing minimum social protection to unorganized sector workers are also being proposed. The feasibility of financing and implementing such a measure and various alternative models are being currently debated and examined.

The paper provides an account of these developments and attempts to identify issues arising out of them with a view to drawing up an agenda for discussion and research on employment and decent work in India.

I. Employment in development strategy: A brief review of approaches in Five Year Plans

Employment has been an important policy concern over five decades of development planning in India. Consecutive Five Year Plans, which laid down the directions for overall and sectoral development in a medium-term perspective, have been quite explicit in respect of the goal of employment generation, particularly in view of the growing numbers of unemployed workers and continual large additions to the labour force. Assessment of the problem and approaches and strategies to deal with it have, however, varied over the years (for some details on the treatment of employment in consecutive Five Year Plans, see Papola, 2004).

In the initial years of development planning, unemployment was not expected to emerge as a major problem; yet care was taken to see that sufficient employment was generated in the development process to productively employ the growing labour force (Papola, 1992). A reasonably high rate of economic growth combined with an emphasis on labour-intensive sectors such as small-scale industry was expected to achieve this goal. The rate and structure of growth rather than technology were seen as the instruments of employment generation. Thus, while granting that in “an economy with relative abundance of labour, a bias in favour of comparatively labour intensive techniques is both natural and desirable”, it was clearly recognized that “considerations of size and technology should not be set aside to emphasise employment” (Planning Commission, 1956, pages 112–113). Unemployment was estimated to be relatively low, as was the growth rate of the labour force, and a targeted economic growth rate of 5 per cent with some emphasis on labour-intensive consumer goods sectors was expected to generate enough jobs over the years to prevent any increase in unemployment. For example, the Second Plan (1957–62) estimated unemployment at 5 million at its start and annual additions to the labour force at 1.5–2 million; a 5 per cent growth rate as envisaged in the Plan was expected to generate employment opportunities for all these workers over a period of ten years. Employment was thus considered to be a goal of development, though not central, much less overarching. At the same time, it was not treated purely as a “residual”; some efforts were made to see that it was an essential element of the development strategy.

These assumptions and expectations continued from one Five Year Plan to another during the 1950s and 1960s. Achievements relating to growth and employment, however, fell far short of expectations. GDP grew at an average annual rate of around 3.5 per cent; employment growth averaged 2 per cent, whereas the labour force grew at a rate of 2.5 per cent. As a result, the number of unemployed, estimated at 5 million in 1956, rose to 10 million by 1973–74. Recognizing the urgent need to address the problems of growing unemployment and persistent poverty which was estimated to afflict over one-half of India’s population, the Fifth Five Year Plan (1974–79) envisaged a reorientation of development strategy towards employment-oriented growth and the introduction of special anti-poverty and employment programmes. While this approach continued for about a decade, the magnitude of the problem was found to have become greater in the meantime. The Seventh Five Year Plan (1985–90), therefore, for the first time sought to place employment at the centre of development strategy: “The central element in the development strategy of the Seventh Plan is the generation of

productive employment” (Planning Commission, 1985, page 23). The potential employment generation of the targeted sectoral growth rates was quantified and a 4 per cent annual growth rate of employment was projected (*ibid.*, page 33). The 1980s experienced relatively faster GDP growth at 5.5 per cent, but employment growth was lower than the earlier decade, at 1.8 per cent. The number of unemployed was estimated to have risen to 14.5 million by 1988 and to 17 million by 1991–92 (Planning Commission, 1992).

In light of this experience a detailed assessment of employment trends and prospects was undertaken in the early 1990s; the study also took into account the likely impact of the process of liberalization and economic reforms initiated around that time. This assessment formed the basis of the employment strategy for the Eighth Five Year Plan (1992–97). For the first time, employment was considered sufficiently important to merit an independent chapter in the Plan document (Planning Commission, 1992, Chapter 6). Estimating the number of unemployed (openly unemployed plus severely underemployed in need of alternative jobs) at 23 million in 1992, additions to the labour force at 35 million during 1992–97 and another 36 million during 1997–2002, the Plan set a target of 2.6 to 2.8 per cent annual growth of employment with a view to achieving the goal of “employment for all” by 2002 (*ibid.*, page 120). This target was integrated in the Plan strategy through overall and sectoral priorities, policies and programmes, such as spatial and sub-sectoral diversification of agriculture, wasteland development, a support and policy framework for the development of the rural non-farm sector, a small and decentralized industrial sector, together with faster growth of the informal and service sectors. At the same time the Plan introduced labour market policies to remove policy and legislative measures discouraging the expansion of employment and provision of training programmes for the development of skills in accordance with changing market demand.

The Ninth Plan (1997–2002) identified employment as one of the three important dimensions of state policy, the others being quality of life and regional balance. Productive work, it was pronounced, is “not merely a means to the ultimate end of economic well-being” but should be seen “as an end in itself – a basic source of human dignity and self-respect” (Planning Commission, 1998, page 13). The Plan recognized that a higher rate of economic growth in the preceding decade had led to faster growth of productive employment opportunities. Yet it emphasized, like the Eighth Plan, that growth could be made more employment friendly by “concentrating on sectors, sub-sectors and technologies that are more labour intensive, in regions characterised by higher incidence of unemployment and underemployment” (*ibid.*, page 14). Accordingly, it posited “priority to agriculture and rural development with a view to generating adequate productive employment and eradication of poverty”, as its first objective.

The Ninth Plan, like the Eighth Plan, made a detailed analysis of the trends in employment and the likely scenario during the Plan period. However, in spite of pronouncing employment as a major dimension of state policy, the Plan effectively treated it as a residual resulting from factors and constraints other than the consideration of employment generation. Taking the base year (1997) estimates of unemployment and the projected increase in the labour force over the Plan period (1997–2002) and recognizing the declining trend in employment elasticities, the Plan projected the growth of employment opportunities to be similar to growth in the labour force, with the targeted 7 per cent growth rate of GDP, thus leaving the backlog of unemployment unchanged.

A renewed urgency to focus on employment appeared to have set in by the end of the 1990s, presumably with the realization that faster economic growth by itself is not sufficient to tackle the problem: a higher growth of GDP at around 6 per cent during the 1990s resulted in only 1.1 per cent growth in employment, whereas a much lower growth had been accompanied by 2 per cent growth in employment during the earlier decades. Two committees (a Task Force in 1999 and a Special Group in 2001) were appointed by the Planning Commission in quick

succession to examine the trends in employment generation and to suggest a strategy for the creation of employment opportunities to attain the goal of employment for all within a specified time. Their assessments and recommendations (Planning Commission, 2001b and 2002a) were used in formulating the Tenth Five Year Plan (2002–07). The challenge, as quantitatively indicated by the number of new jobs needed to meet the goal of employment for all, was found to be much larger than previously estimated. The labour force was expected to grow faster in the initial years of the new century than during the 1990s. Estimates of the quantum of unemployment were also relatively high as it was considered reasonable to use a more liberal basis (current daily status as compared to usual or weekly status) for measuring unemployment. As a result, the job requirements to achieve employment for all in five years were estimated at an equivalent of 70 million person years. It was estimated that the 8 per cent GDP growth envisaged in the Tenth Plan following the past pattern of growth, characterized by low and declining sectoral elasticities of employment, could generate employment opportunities equivalent to only 30 million person years, against additions to the labour force of 36 million, thus adding about another 6 million to the base period unemployment of 35 million person years.

The Plan, therefore, envisaged reorienting the growth strategy in order to improve its employment content. Following the recommendations of the Special Group (Planning Commission, 2002a), the Tenth Plan introduced a number of special programmes relating to different sectors, particularly in agriculture and related activities, small and medium enterprises, rural non-farm sector and social sectors like education and health, as well as policy changes to stimulate the development of high labour intensity sectors such as construction, tourism, communication and information technology and financial services. It was argued that this reorientation will not necessarily involve heavy additional investment, but mostly a reallocation of funds and choice of appropriate technologies. The Plan estimated the additional employment potential of these programmes and policy changes at about 20 million person years which, together with the 30 million generated through the growth rate of 8 per cent, was expected not only to provide employment for the 36 million new entrants to the labour force, but also to reduce the backlog of 35 million to around 21 million at the end of the Tenth Plan, i.e. March 2007. With the continuation of a similar strategy it was projected, rather optimistically, that the quantum of unemployment would come down to around 2 million and the unemployment rate to a negligible 0.44 per cent by 2012, as against 9.21 per cent in 2002 (Planning Commission, 2002b, pages 146 and 172).

No data are as yet available to assess the extent to which employment has grown and these expectations have been met over the Tenth Plan, which terminates in March 2007. Evidence from the limited sample surveys of NSSO (National Sample Survey Organization) suggests an upturn in the growth of employment during the post-2000 period; employment, according to the estimates based on these surveys, is estimated to have grown at over 2.7 per cent per annum during 2000–04, as against just over 1 per cent during 1996–2000. Whether this estimate is valid will be known only after the results of a subsequent, larger, survey are available. But the concern for faster employment generation became a major plank of political campaigns in the 2004 elections; the new political combination that came into power in May 2004 decided to accord it high priority in so far as employment was placed at the top of the agenda in its National Common Minimum Programme (NCMP). In addition to taking the necessary steps to boost growth in sectors with high employment potential such as small-scale industry, textiles, diversified agriculture and agro-processing, Khadi and Village industries, and activities in the informal sector, it also proposed to enact a National Employment Guarantee Act. Such a law for rural areas, guaranteeing up to 100 days work a year to every household to begin with, in selected poorer districts of the country, has been passed by Parliament, and a National Rural Employment Guarantee Programme (NREGP) is already under implementation in 200 selected

districts. As promised in the NCMP, a National Commission has also been set up to examine the problems of informal enterprises in order to devise policies and programmes for strengthening the growth capacity of this high employment potential sector as well to provide better conditions of work and social security to its workers.

How far the Tenth Plan strategy for faster employment growth has been successful will not be clear for some time. Estimates of employment for 2004, the last year for which the NSSO carried out its quinquennial survey on employment and unemployment, are not yet available, and the next survey is due in 2008; the results will be available two years later. The Planning Commission, however, appears to be rather sanguine in this respect, in so far as it does not regard employment as a “major challenge” (Planning Commission, 2006). The Commission does see unemployment as a dimension of the “divides” that need to be bridged for inclusive development. It notes the concern “often expressed” at the failure of the growth in recent years to generate employment at the required pace (without stating whether the concern is real!).

The apprehension that the Commission does not place employment among the major concerns for the Eleventh Five Year Plan is reflected in the rather routine treatment it receives in the draft approach paper. The document is quite explicit in advocating the need for a shift of the labour force away from agriculture in order to improve productivity, raise income and alleviate poverty among rural workers, thus reducing the “rural-urban divide”. With regard to creating employment opportunities in the non-agricultural sectors to absorb those shifting away from agriculture, together with those already unemployed and new entrants to the labour force, the document only repeats some familiar clichés: “special attention to labour-intensive manufacturing sectors”, “large possibilities for employment generation in tourism, ‘enormous’ contribution that ‘accelerated growth of manufacturing at 12 per cent per year’ can make”, “substantial” additional employment from exports of garments and textiles, that would result from the end of the textile import quota regime in industrialised countries”, “substantial” employment (that) can be generated in construction sector”, etc. The assumption that introducing “labour flexibility” will result in larger employment generation is also endorsed, thus making a plea for “labour reforms”.

II. Macroeconomic and sectoral policies and employment

To a certain extent, the “weak-linked” approach of the Eleventh Plan draft approach paper illustrates the way employment has always been treated in development strategy. The planners and policy makers are often not even sure if unemployment is a serious problem and employment generation, therefore, a challenge for development strategy. When it is recognized as a major concern, they are at a loss to see how to tackle it as part of the development process. Thus, there is always a gap between expressions of concern and the exposition and quantification of the problem on the one hand and the measures and mechanisms – investments, policies and programmes – towards its solution on the other.

The importance of employment and also its centrality for reducing poverty has, however, often been well recognized. Attempts have also been made to reflect its importance in the growth strategy to the extent possible by laying special emphasis on the growth of sectors with higher employment potential. In addition, several special employment programmes have been implemented, both for generating full-time self-employment and wage employment for the unemployed and short-term employment in public works for the underemployed. However, employment has not been successfully “internalized” in growth strategy in so far as the rate and pattern of growth is determined by other factors such as savings and investible resources, technology and aggregate supply-demand balances. Starting the Plan exercise from the employment end and working out the growth rate and strategy to achieve the goal of

employment for all in a specified time frame has often been mooted, but such an approach has not been found feasible and practicable. For example, the growth rate required to generate a desirable quantum of employment within five to ten years is too high to be achieved with the investible resources in sight. Moreover, raising the employment content of growth significantly has also not been possible in the wake of technological changes and declining employment elasticities of different economic activities.

The employment generation strategy has, therefore, primarily focused on emphasizing faster growth of sectors with high employment potential so as to ensure a relatively higher employment content of aggregate growth. This has been supported to a certain extent by some macroeconomic, credit and fiscal policy measures. Macroeconomic policies, of course, have objectives such as controlling inflation, sustaining public expenditure and attaining fiscal balance, as their primary concerns; employment generation features, if at all, only as a secondary objective of monetary and fiscal policies. Yet certain fiscal and credit instruments in support of the sectors and activities with high employment potential have always been an integral part of economic policies. Tax exemptions and concessions to small-scale industries and decentralized sectors like handicrafts and handlooms are notable examples of such support. Credit quotas and lower interest rates for small and rural industries have also been part of the assistance package for their promotion and development, with the objective of generating employment. Sizeable budgetary resources have been allocated continuously since the mid-1970s on programmes aimed at creating self- and wage-employment for poverty alleviation. This expenditure has been incurred either in creating short-term employment in public works or in subsidies to the poor to acquire assets for self-employment, in combination with the targeted bank credit.

The objectives of macroeconomic policies have sometimes led to actions that militated against the employment goal of the development strategy. For example, the need to reduce public expenditure in order to contain the fiscal deficit resulted in smaller budgetary provisions for employment programmes during the 1990s. Similarly, policies aimed at cutting subsidized interest rates and reducing the non-performing assets (NPAs) of banks also had an adverse impact on the availability and cost of credit for employment-intensive sectors like small and rural industries. But such conflicts have been few and for short periods, and public expenditure and policy initiatives to promote social sectors and employment have largely been restored.

Employment has received a special focus in the development agenda in India, particularly during the last two decades. (Of late, it has assumed political significance as it also featured prominently in the election manifestos of major political parties during the last (2004) general elections!) Various approaches and strategies have been tried in order to accelerate the pace of employment generation so that the unemployed will be productively absorbed in growing economic activities. It has been recognized that a high rate of economic growth is necessary but not sufficient to generate employment of the magnitude required to provide jobs for those currently unemployed as well as those entering the labour force every year. Efforts have, therefore, been made to restructure growth, to the extent possible within the constraints of investible resources and macro-balances, in favour of sectors with relatively high employment intensity and, at the same time, to introduce policies and programmes conducive to direct employment generation.

While these efforts have continued with some success, the problem has become greater. The assumption that a higher growth rate will result in faster employment growth has not been realized. While GDP growth accelerated to an average of 6.7 per cent during 1993/94–1999/2000 from 5.2 per cent during 1983–1993/94, employment growth slowed down from 2.7 per cent to 1.07 per cent (Planning Commission, 2002b, page 141). The employment elasticity of GDP growth correspondingly declined from 0.52 to 0.16 (*ibid.*, page 163).

Increasing the employment content of growth was, therefore, seen as a major challenge and the Tenth Plan envisaged a bold attempt in this direction (to increase employment elasticity to 0.338) by restructuring growth and supplementing it with policy changes and special employment-generating sectoral programmes.

Thus while it has not been found feasible to mainstream employment concerns into public investment programming, it is recognized that within the overall investment and growth pattern dictated by resource- and demand-supply considerations, it is possible to increase the employment content of growth by introducing suitable sectoral policies and programmes. The latest and rather innovative example of this approach was seen in the Tenth Plan, which envisages the creation of an additional 20 million employment opportunities over the five-year period. The Plan promotes faster growth of labour-intensive sub-sectors of agriculture, land rehabilitation, food processing, rural non-farm activities, small and medium enterprises, education and health services, information technology, construction, transport and trade through a minimal investment reallocation but mainly through policy and institutional changes. In practice, however, the two elements of growth strategy, output growth and employment generation, seem to proceed in an autonomous rather than interlinked and induced manner. Linking the two would require an explicit recognition of employment as an objective and would subject the exercise of determining the rate and sectoral pattern of growth to the test of achieving a targeted rate of employment growth. It is theoretically possible to work out such a model, but its desirability and practical feasibility need to be examined. It has been argued that it is possible to follow a model in which growth rate is an outcome of employment policy, and not an end in itself, by making the domestic rather than external market the focus of economic policy and creation of demand rather than cost-cutting its central objective (Bhaduri, 2005).

III. Trade and employment: An illustration of a policy-induced growth employment linkage

With the adoption of a new economic policy and reforms characterized by deregulation and trade liberalization, exports are, of late, seen as an important source of employment. For the first time trade policy has become an important instrument not only of faster growth, but also of job creation on a larger scale. Trade and inflows of investment are expected to boost employment in a labour-abundant developing country like India in two major ways: by accelerating the growth rate and by comparative advantage-based exports and investment in labour-intensive sectors. Until the 1980s the trade regime was characterized by protection and restrictions. Similar policies had governed the inflow of foreign investment as well. These policies protected employment in industries, but at the same time engendered inefficiency in production and restricted faster growth of sectors with comparative advantage and potential for larger productive employment generation. Policies have undergone a sea change particularly since 1991. In the realm of trade and investment the new policies are characterized by a rapid reduction in tariff rates, removal of quantitative restrictions and the opening up of most sectors to foreign direct investment and permission for portfolio investments; there is automatic approval for up to 100 per cent foreign equity in certain areas.

These policy changes are, of course, part of the reform effort aimed at making India a partner in the process of globalization, with a view to achieving faster economic growth in which comparative advantage-based exports are expected to play an important role. Employment generation is not obviously the direct aim of these policies of liberalization, but it is understood that higher growth and larger exports will lead to faster employment growth. An important way in which trade and investment liberalization can lead to higher growth of jobs is a shift of the export base from primary commodities to manufactures and modern services. Also, international competition would induce the identification and development of distinctive

comparative advantage which would obviously imply more exports of labour-intensive products and services. At the same time, some negative implications of trade liberalization cannot be ruled out. In the initial period of trade liberalization, the competition could lead to a decline and restructuring of enterprises in some of the hitherto protected sectors, resulting in redundancies and unemployment. There are also apprehensions that in the medium term there could be a qualitative deterioration in employment along with possible quantitative expansion, as most jobs are likely to be created in the unorganized sectors where earnings, job security and social protection are at low levels.

What has been the experience of the trade policy reforms in India and what are the emerging trends and their implications in respect of employment? There has been a steady rise in the external trade sector of the Indian economy over the past two decades. Trade (exports plus imports) as a percentage of GDP has increased from around 15 per cent in 1980 to about 29 per cent by 2004–05. Exports as a percentage of GDP have grown from around 6 per cent to 12 per cent during this period (World Bank, 2002; GOI-MOF, 2006). The composition of exports has also changed in favour of manufactured goods: by 2000 manufactured exports accounted for over 75 per cent of all merchandise exports as against 58 per cent in 1980. Foreign direct investment has increased from 0.3 per cent of GDP in 1991 to about 3 per cent in 2000. Most of it, however, has been in chemicals, engineering, transport equipment, and fuel sectors and very little in labour-intensive sectors like textiles and clothing (RIS, 2002), partly due to the government policy not relaxing restriction on foreign investment in these sectors (Ramasmwamy, 2003). The only employment intensive sectors that have attracted a significant inflow of foreign investment during 1991–2003 are food processing and services. No estimates of employment generated through foreign investment are available, but from the sectoral pattern of investment it appears that the number of jobs directly generated by this process may not be very large. It is, however, expected that its secondary impact on employment will be significant.

Employment growth, as noted earlier, has been slow in aggregate, averaging around 2 per cent during the 1980s and even lower during the 1990s, but manufacturing employment has grown reasonably fast, averaging around 2.5 per cent per annum. Within the manufacturing sector, while there was no significant difference in employment growth between export-oriented and import-competing industries during the 1980s, the performance of export-oriented industries was significantly better during the 1990s: employment grew at 3.36 per cent per annum, as against 2.67 per cent in import-competing industries during 1990–97 (Goldar, 2003; Ghose, 2003). The conventional theoretical expectation that a labour-surplus developing country like India has a comparative advantage and will, therefore, specialize in low-skill labour-intensive exports seems to hold. Low-skill products dominated manufactured exports: industries which could be characterized as medium-low or low technology accounted for 75 per cent of total manufactured exports during the 1990s, as well as the 1980s (Ghose, 2003).

Overall, the employment implications of trade liberalization have been and will probably continue to be positive. In the manufacturing sector, not only has employment growth been significantly higher in export-oriented industries than others, employment elasticity has also been found to have risen in the post-reform period in this segment and is now significantly higher (0.48) than the average for all industries (0.33). This has also led to an increase in aggregate employment elasticity of the manufacturing sector from 0.26 in the pre-reform to 0.33 in the post-reform period (Goldar, 2003). Since the emerging trade pattern is found to be broadly consistent with the Heckscher-Ohlin notion of comparative advantage in so far as most export-oriented industries are relatively more labour intensive, a sustained growth of trade on similar lines can be expected. As a result, it would be reasonable to expect a continuation of the positive impact of liberalization-induced expansion of trade on employment. At the same time,

it must also be noted that trade liberalization has led to an increase in imports and to that extent has adversely affected growth of domestic output and, therefore, of employment.

IV. Job quality and social protection: The role of the public sector

While economic growth under the state-directed planning regime failed to generate sufficient employment, particularly failing to create good quality jobs with social protection in the private sector, the Government itself played a significant role in this respect. For 30 years of development planning, employment growth was low at around 2 per cent per annum due primarily to the slow rate of economic growth at around 3.5 per cent. For the next 20 years, the rate of economic growth accelerated to over 6 per cent; employment growth remained at 2 per cent during the first decade, but was much lower during the subsequent ten years. With labour force growth exceeding employment growth throughout the half century, the rate and magnitude of unemployment progressively increased. In a labour market characterized by perennial excess supply, more and more workers had to accept poor quality jobs in the unorganized sector.

In fact, the responsibility of maintaining a minimum quality of jobs was mainly assumed by the Government: one, by providing employment to substantial numbers as its own employees and as employees of enterprises and establishments owned and controlled by it; and two, by legally prescribing minimum conditions of work and social protection for workers in relatively large private sector establishments. These two segments of the economy together have come to be known as the “organized sector” in India. This sector was expected to increase its share in employment with large-scale industrialization-based development and modernization of the economy, and it did increase its share until 1990. The “organized” sector accounted for about 6–7 per cent of total employment during the 1960s, and this increased to 9 per cent by 1990. It is estimated to have declined to about 7 per cent by the start of the new millennium.

Changes in employment in the organized sector, and thus in the structure of employment in terms of job quality and social protection, have primarily resulted from the change in public sector employment. The Government was to play an important role not only in public administration, but also in delivering economic services in a planned economy. Besides, it was considered not only legitimate but also necessary for the state to engage in directly productive economic activities considered to be vital for development and public welfare. A large number of activities were thus reserved for the public sector, with the Government starting new enterprises or taking them over from private entrepreneurs. In some cases, even when the activity was not reserved for the public sector, the Government took over enterprises for more effective and equitable delivery (e.g. banking) or for protecting employment and productive assets (e.g. textile mills etc.). Thus public sector employment expanded rapidly over the years. Its expansion was particularly rapid during 1970–90, due to many takeovers and nationalizations. Employment in public sector enterprises was around 0.7 million in 1969 and increased to 2.2 million by 1989–90.

At the same time, private sector employment in the larger establishments constituting the organized sector also increased. But the public sector has always accounted for two-thirds or more of total organized sector employment (see table 1). In 1981 out of the total organized

Table 1. Employment in the organized sector
(million persons as on 31 March)

Year	Public sector	Private sector	Total
1981	15.48	6.50	22.00
1990	18.77	7.58	26.35
1997	19.56	8.75	28.17
2001	19.14	8.65	27.79
2003	18.58	8.42	27.00

Source: *Economic Survey*, various years.

sector employment of 22 million, the public sector accounted for 15.5 and the private sector for 6.5 million. The peak in organized sector employment was reached in 1997 when it stood at 28.17 million, increasing rather slowly from 26.35 million in 1990. Slow growth over the period 1990–97 resulted from a slow-down in the growth of public sector employment, which increased only by 4 per cent during the seven years, while private sector employment increased by 15 per cent. Since 1997, both public and private employment in the organized sector have registered a continuous declining trend, so that by 2003, total organized sector employment had declined to 27 million, public sector employment to 18.58 and private sector employment to 8.42 million (GOI, 2006). Here again, the decline in public sector employment has been faster, at 5 per cent, than in the private sector, at 3 per cent. Over the period 1990–2003 organized private sector employment has shown a significant increase of 12 per cent while public sector employment has seen a decline of over 1 per cent. However, the private sector still accounts for less than 30 per cent of organized sector employment.

All branches of the public sector have registered a decline in employment since 1997 (table 2). The fastest decline has been in “quasi-government” establishments, from 6.46 million in 1997 to 5.9 million in 2003. The number of employees in governments, central, state and local – has declined but only to a small extent, the least in local bodies where it, in fact, increased till 2000. The fastest decline, within the quasi-government branch, appears to have been in public sector enterprises, where a decline started at the beginning of the 1990s. These enterprises employed 2.24 million workers in 1989–90; the number declined to 2.18 million in 1991–92, and by 2002–03 it had fallen to 1.87 million.

Public sector employment is, of course, dominated by services, which accounted for over 50 per cent (9.6 million out of a total of 18.6 million) in 2003. Transport, contributing another 15 per cent, is second in importance; and finance, with a share of 7.5 per cent, is third. Manufacturing is a close fourth with 7 per cent of employment. It may be noted that manufacturing used to be a much larger segment of the public sector, contributing over twice as many jobs (1.5 million) than finance (0.75 million) in 1981. Since then finance has seen a continuous rise in employment, reaching 1.38 million in 2003 while manufacturing after reaching a peak of 1.85 million in 1991 has seen continuous decline: it employed only 1.26 million workers in 2003. Community and social services, however, experienced a continuous rise in employment, thus not only maintaining but increasing their share in total public sector employment. Since 2000 there has been a small decline in their employment.

Table 2. Employment in the public sector
(million persons as on 31 March)

	1981	1991	1997	2000	2003
By branch					
Central Government	3.20	3.41	3.29	3.27	3.14
State Government	5.68	7.11	7.49	7.46	7.37
Quasi government	4.58	6.22	6.46	6.33	5.90
Local government	2.04	2.39	2.19	2.26	2.18
Total	15.48	19.06	19.54	19.41	18.58
By industry					
Agriculture	0.46	0.56	0.53	0.51	0.51
Mining	0.82	0.90	0.98	0.92	0.85
Manufacturing	1.50	1.85	1.66	1.53	1.26
Electricity, gas and water	0.68	0.91	0.96	0.95	0.91
Construction	1.09	1.15	1.13	1.09	0.95
Trade	0.12	0.15	0.16	0.16	0.18
Transport	2.71	3.02	3.09	3.08	2.94
Finance	0.75	1.19	1.29	1.30	1.38
Community, social and personal services	7.36	9.23	9.79	9.77	9.61
Total	15.48	19.06	19.54	19.41	18.58

Source: *Economic Survey*, various years.

Employment in the public sector is on the decline now, not only in aggregate, but in every branch and sector of activity. And this trend is expected to continue in future because of government downsizing and the privatization of public enterprises. In so far as public sector jobs have been the most coveted and socially protected form of employment, this decline means an overall decline in the degree of social protection. The organized segment of the private sector provides the next best social protection to its employees. But employment in this segment is not growing; in fact, it has also experienced an absolute decline in recent years. And there has also been a trend towards increasing the use of non-regular and, therefore, non-protected, labour by the organized private sector in the wake of increasing labour flexibility (see, for example, Deshpande et al., 2004). This phenomenon may further increase with the so-called “labour reforms”, a euphemism for greater freedom to employers in the hiring, use and firing of labour, currently proposed. As a result of these processes, it is obvious that the overall degree of social protection for Indian workers will decline rapidly in the coming years.

V. Decline in organized sector employment: Labour flexibility and social protection

As is clear from the foregoing account, the decline in organized sector employment in recent years has mainly occurred in the public sector as a result of government downsizing and the privatization of public enterprises; labour laws have no relevance. In the private sector, labour reforms designed to provide greater flexibility to enterprises in the use of labour, with certain minimum safeguards, may be necessary, but to expect that such reforms will result in many more jobs in the organized sector, as often claimed by employers, would be highly unrealistic. For employment is primarily dependent on the planned output growth as warranted by market demand, and the available technology for production. Empirical evidence suggests that employment in an industry has moved in line with growth of its output; the effects of technology have been limited, at least in the short run (Papola, 1994).

There is evidence to show that enterprises often meet their labour requirements by employing workers in modes that cost them less. They use contract labour or employ more workers in non-regular, non-permanent – temporary or casual – categories. These practices are widely used by both small and large enterprises to avoid the cost of meeting labour standards and social security, and not necessarily because of regulations imposing inflexibility in labour adjustment. The proportion of workers employed in these categories has significantly increased over the past two decades (see e.g. Deshpande et al., 2004). One reason for this appears to be in technological developments that facilitate “dismantling” production processes. “Relaxed” implementation and reduced surveillance by the government agencies of the observance of fair labour practices have also contributed to the increased informalization of the workforce. This is exemplified by many state governments having exempted information technology units and certain other export-oriented enterprises from the application of the Contract Labour Act and the recent Supreme Court judgement denying the right of regularization to casual workers even after ten years of continuous service.

It appears that regulations aimed at providing some minimum labour standards do not necessarily restrict employment, but encourage employment of the unprotected variety. The option of using labour with or without the guarantee of minimum labour standards and social protection encourages enterprises to use the unprotected mode. This increases the share of informal employment, with no social protection to workers against the risks of workplace and life. It is in this context that the concern to provide some minimum protection to these workers has of late gathered momentum. The Second National Commission for Labour had specifically recommended a social security scheme for workers in the unorganized sector. Recently, the National Commission for Enterprises in the Unorganized Sector (NCEUS), has proposed a bill providing for health, insurance, maternity and old-age benefits for workers in the informal sector or informally employed workers in the formal sector not covered by any existing social security legislation.

These initiatives deserve serious consideration by the Government, civil society and trade unions. At the same time, their implicit assumption that informal sector enterprises, in general, are not capable of meeting the cost of protection – labour standards and social security – provided under the existing legislation and that there needs to be separate provision with lower standards and benefits for unorganized workers, needs to be carefully examined. Serious consideration should be given to the alternative of applying existing laws such as the Factories Act, providing minimum conditions of work, and social security legislation such as the Employees State Insurance, Maternity and Provident Fund Acts to all establishments irrespective of size (or, to begin with, to those employing, say five or more workers). As mentioned earlier, enterprises employ more workers in unprotected categories because that

option exists. With universal application of these laws, such an option will disappear and there will be no incentive to employ workers on an unprotected basis.

This proposal goes contrary to the one commonly advanced by employers, to raise the threshold limit for application of these laws (e.g. from ten workers to 50 workers in an establishment). If the idea is to widen the net of social protection, lowering rather than raising the minimum size for applying these laws is the right step. The cost implications of such a change for smaller enterprises, however, need to be carefully examined. In a way, the social security scheme proposed by NCEUS aims at similar universal coverage, with contributions from workers, employers and the Government, with the proviso that government will pay the employer's share where there is no employer (as in the case of the self-employed) or the employer is not directly identifiable (as in the case of home based workers) and also the worker's share where the worker belongs to a household below the poverty line. The scheme, however, provides for benefits lower than those available under the existing schemes currently applicable to workers in larger establishments.

VI. Special employment programmes: Significance of the National Rural Employment Guarantee Act

Besides providing regular good quality jobs to a large number of workers in the Government and in public-sector undertakings, the Government also provides short-term wage employment and direct assistance for creating self-employment, as its legitimate function. This is not just an emergency relief measure, but a sustained effort towards poverty alleviation. As part of this function several special poverty alleviation programmes have been implemented since the 1970s, using employment generation as a means of poverty alleviation. They recognize that the cause of much poverty is the non-availability of wage employment throughout the year or a lack of productive assets within households which would permit them to engage in gainful self-employment. One set of programmes, therefore, aimed at creating wage employment in public works and infrastructure building, particularly in rural areas, to provide supplementary wage employment to the underemployed. They guaranteed employment for all the people and days available for work (e.g. in the Maharashtra Employment Guarantee Scheme), or a minimum number of days (e.g. 100 days in the Employment Assurance Scheme of the Government of India) to the members of identified poor households. These programmes have received large budgetary allocations every year and besides creating millions of person days of employment, have also exerted an upward pressure on wages in agriculture and other activities (Datt, 1998; Sen, 1998). In 2004–05, for example, the Central Government spent over Rs.65 billion on rural employment programmes, creating over 900 million person days of wage employment. The employment guarantee programme under the NREGA is an important initiative in this category.

The other type of programme aims at creating self-employment among poor rural households by enabling them to acquire productive assets through a package of financial assistance consisting of subsidies and targeted bank credit. Millions of households have been assisted under this programme (for example, 6,275 million households were assisted with a budgetary expenditure of Rs.81 billion during April – November 2005 (GOI-MOF, 2006)), raising income in most cases and crossing the poverty line income level in the case of around 15 per cent of the assisted households (Planning Commission, 2001b).

These programmes, generally classed as rural development, are seen primarily as poverty alleviation programmes, but seek to achieve this objective through creating employment both of a sustained and temporary nature. They are also part of the package aimed at generating about 50 million new employment opportunities during the Tenth Plan, though their contribution is

estimated to be relatively small (around 2 out of the 50 million). In other words, these programmes, particularly those of the wage employment variety, are still primarily seen as measures to create temporary or supplementary employment to alleviate current poverty and not as sources of permanent employment and sustained poverty alleviation.

The need for large-scale wage employment programmes to provide supplementary income is considered urgent. This is evident in the large budgetary allocations made for such programmes, in the enactment of the National Rural Employment Guarantee Act, 2005 and in the launching of employment programmes to implement the Act in February 2006. In other words, underemployment is still seen to be a major form of unemployment and short-term wage employment is therefore an important mechanism for poverty alleviation. It was expected that the nature of unemployment would change with technological innovation and greater formalization of productive activities. It was also expected that underemployment would decline and most unemployment would take the form of open unemployment. In other words, structural and technological changes accompanying development were expected to lead to a pattern of labour utilization where workers were either fully employed or fully unemployed. The underemployed were expected to progressively decline in numbers. Whether that happened or not could broadly be seen by comparing the unemployment rates at current daily status (CDS) with usual principal/and subsidiary status (UPSS) or current weekly status (CWS).

As is well known unemployment rates at usual status are generally very low in India while those at daily status are relatively higher (see table 3). In 1972–73, the former was 1.61 per cent, the latter 8.35 per cent and, in 1999–2000, the two rates respectively were 2.81 per cent and 7.32 per cent. Unemployment rates at weekly status (CWS) are between the two. Usual status unemployment is supposed to reflect chronic unemployment; CWS unemployment includes those who may be unemployed for the whole week, but may not be unemployed by the usual status criterion. CDS unemployment reflects the sum total of all the days of unemployment of the chronically unemployed as well as underemployed. In that sense, the difference between CDS and UPSS unemployment measures the degree of underemployment.

Looking at the trends in unemployment rates with different criteria, over the period 1972–73 to 1990–2000, for which NSS data are available on a five-year basis, no clear direction is discernible in respect of changing employment structure. Open unemployment rates, either in UPSS or CWS terms, have fluctuated, with an initial increase in 1983 over 1972–73, a decline in 1993–94 over 1983, and a notable increase in 1999–2000 over 1993–94. CDS rates on the other hand declined from one five-year period to another until 1993–94, indicating a decline in the degree of underemployment; the CDS rate and the degree of underemployment both increased in 1999–2000 over 1993–94. In any case, the major part of unemployment, measured in terms of person days, is still in the form of underemployment. So, if the difference between CDS and UPSS is taken as a measure of underemployment, it accounted for 80 per cent of all person days of unemployment in 1972–73, declining to 56 per cent in 1987–88, but rising again to 70 per cent in 1999–2000.

Thus, while the creation of new full-time jobs has to be the major goal of employment strategy, the provision of supplementary employment to augment the incomes of the underemployed will need to continue as one of its important elements for some time to come. It is in this context that the NREGA employment programmes have direct relevance for poverty alleviation through the utilization of underemployed labour. NREGA does not obviously aim at creating full-time jobs as it guarantees only up to 100 days of unskilled work to a household, and thus has the underemployed poor as its main target group.

As earlier wage employment programmes had similar goals and target groups, a question often asked is: How are the programmes under NREGA going to be different and more effective

Table 3. Unemployment rates (% of labour force)

Year	UPS	UPSS	CWS	CDS
1972–73	3.80	1.61	4.32	8.35
1977–78	4.23	2.47	4.48	8.18
1983	2.77	1.90	4.51	8.28
1987–88	3.77	2.62	4.80	6.09
1993–94	2.56	1.89	3.63	6.03
1999-2000	2.81	2.20	4.41	7.32

Notes:

UPS: **Usual principal status**. A person is considered unemployed according to this concept if available for but without work for major part of the year.

UPSS: **Usual principal and subsidiary status** includes, besides UPS, those available but unable to find work on a subsidiary basis, during a year.

CWS: **Current weekly status**. A person is unemployed if available for but unable to find work even for one hour during the reference week.

CDS: **Current daily status** measures unemployment in terms of person days of unemployment of all persons in the labour force during the reference week.

than their predecessors? First, the work to be provided under the Act is legally guaranteed and is not contingent upon the availability of resources and projects. Second, even with a cap of 100 days of work per household, the size of the programme is likely to be much larger than any of the earlier programmes, particularly when it is eventually implemented all over the country. Obviously, the amount of work and income generated will be proportionately much larger.

NREGA basically envisages a wage employment programme with a legal guarantee to provide work for a given number of days at statutory minimum wages and thus a minimum assured income supplement to rural households. It has been rightly claimed and acclaimed as a historic and unique initiative in so far as no such provision for legally guaranteeing paid work exists anywhere else, nor has there ever been one in India on a nationwide scale, though an employment guarantee scheme of a similar nature has been in operation in one state, viz., Maharashtra for over three decades. But, at the same time, it is important that its potential achievements be realistically assessed, to avoid unjustified criticism if it does not achieve what it is not aimed at or capable of achieving. It is in this context that some important contentious issues are raised and discussed in the following paragraphs.

NREGA is seen by some as a step towards operationalization of the right to work enshrined in the Constitution under the Directive Principles of State Policy (Part IV, Article 41). Neither the Common Minimum Programme (CMP) of the multi-party United Progressive Alliance (UPA) which formed the Government in 2004, which announced that it would immediately enact a National Employment Guarantee, nor the statement of objects of the Act specifically mentioned such an intention. Yet, guaranteeing work on the basis of legislation which also provides for compensation in the event of failure to deliver, does reflect the basic notion of a right to work. It would, however, be unfair to assess its implementation by any absolute criterion for such a right. It needs to be clearly understood that the guarantee to be provided under the Act is not a full-fledged realization of the right to work, but a measure legally ensuring that those seeking but not finding remunerative work are provided such

employment under certain conditions. The right to work obviously could not be an absolute right – no right, in fact, is absolute; even the relevant article in the Constitution calls upon the state to make the provision to secure it “within the limits of its economic capacity”. Certain restrictions, therefore, are expected to be laid down in the legal provision guaranteeing employment to those wanting it. At the same time, the conditions have to be reasonable for the guarantee to be meaningful.

What are the conditions under which work is to be provided under the NREGA? The first condition relates to the kind of work: only unskilled manual work is to be guaranteed. This condition has two considerations: the convenience of implementing the guarantee, as unskilled work is expected to be generally available in plenty; and self-selection of claimants, as only the poor and needy are expected to opt for such work. The second condition relates to the amount of work guaranteed: up to 100 days of work will be provided to a household. This condition has no rationale other than the capacity of the state to fund the programme. The case is similar with respect to restricting implementation of the Act to 200 districts at the beginning, with the commitment to apply it to all districts eventually. Another condition is that the work must result in the creation of productive assets; the responsibility for fulfilling this condition, of course, lies with the implementing authority and not with the worker.

Besides these restrictions on the nature and amount of work, there are positive conditions to make the guarantee meaningful and substantive for the worker. In order that the guaranteed work results in a reasonable income, the Act stipulates payment of the minimum wage statutorily fixed for the location of work. The actual payment is, however, to be determined according to the amount of work performed, the rate per piece of work so fixed that a day’s (eight hours) work with normal strength and reasonable diligence will result in payment equivalent to the statutory minimum wage. While this provision appears reasonable in so far as it meets the requirements of reasonable payment as well as productivity, there is always the likelihood of a mismatch between payment based on work norms and minimum wages. In most cases where this has been noticed, the worker has been paid less than the minimum wage. The need to revise work norms and rates has been expressed, as minimum wages are fixed by separate authorities under the Minimum Wages Act and cannot be changed by NREGA implementing agencies.

Similarly, the provision to offer work in the vicinity (within 5 km) of the workers’ homes is meant to make the benefits easily accessible to them. This is particularly relevant for women who generally find it difficult to travel long distances away from home. Access to guaranteed work is sought to be improved by providing a transport allowance if work is offered beyond the 5 km distance. Failure to provide work on demand makes it incumbent upon the State to pay compensation, albeit at a much lower rate than the minimum wage to be paid if work is provided and performed.

The above conditions appear reasonable enough to claim that it is a substantive step towards guaranteeing the right to work. The 100 days’ limit on the amount of work, however, seriously restricts this right. It is, no doubt, justified by consideration of the “limits of economic capacity of the State”. But, it can be reasonably argued that with this restriction, the initiative substantially loses its character of a “right”, and is reduced to the level of a programme to alleviate poverty. We will return to whether this limitation is necessary and to the complications it creates for implementation of the guarantee programme.

Besides the rights dimension, NREGA also has a developmental perspective. Its statement of goals includes two objectives; providing gainful employment to the rural poor and *creating productive assets*. At the level of individual workers, the two objectives are combined by linking payment with the amount of work, as mentioned earlier. But at the level of the programme, it is

to be ensured by providing work on projects for building assets to raise the productive potential of the area and population. The problems that can arise in matching the amount of work with the level of payment to ensure minimum wages and the way they might be resolved have been pointed out earlier. But past experience of wage employment programmes, including that of the three decades old Maharashtra Employment Guarantee Scheme, has clearly brought out the difficulties involved in creating durable, productive infrastructure assets. Part of the problem arises out of the primacy of the employment creation objective, which means that most funds are spent on wages and very little is left for materials that may be necessary to create permanent assets. Another part of the problem lies in the capability of the local implementation agencies to prepare projects that can build productive assets. These difficulties are likely to be greater in a large-scale employment guarantee programme. There could be ways to improve the asset building capacity of the programme by better planning and integration with other development projects and programmes at the local level, and it would be unwise to condemn the programme if it failed to achieve this objective very effectively. The scheme in essence does not guarantee the creation of assets while it does guarantee a minimum amount of work to those who offer themselves for it. And people seeking work and fulfilling the necessary conditions can claim compensation, and perhaps sue the Government, if they are not given work; but there is no such provision in the case of failure to create durable productive assets!

Similarly, certain other expectations raised by different groups also need to be more realistically assessed. Some political groups and civil society organizations are looking at the NREGA as an opportunity for large scale *social and political mobilization of the poor* towards raising awareness and consciousness about their rights. It is true that the participation of a large number of rural people as workers in the programme will provide a huge mass with potential for mobilization, but whether they could be turned into an organized movement would primarily depend on the capability and commitment of the political groups and civil society organizations which have generally been found lacking in most parts of the country in the past. Therefore, the claim that NREGA will bring a “social revolution” in rural India is likely to be exaggerated.

The prospects of a large increase in purchasing power among the rural masses, triggering diversified and faster development in rural areas is another aspect of NREGA highlighted by some observers and economists; this needs careful examination. Assuming that the rural economy is suffering from a deficiency of effective demand, the infusion of thousands of crores of rupees by way of wages paid to workers under the guarantee will obviously boost rural demand for goods and services. The actual result depends on various factors. Will the increase in demand be for rural-produced goods? Do supply conditions exist in rural areas to meet this demand? If urban goods are demanded, will the supply and distribution of such goods in rural areas meet this demand? If the rural production system fails to respond to increased demand for rural goods or if urban goods cannot be supplied, then the likelihood of rising prices and at least partial offsetting of the gains in purchasing power by the rural poor would be imminent. This apprehension certainly should not be an argument against the NREGA programme, but the multiplier effects that it will produce need to be carefully examined before judging its impact on the rural production system. If the purchasing power generated by the programme is to be channelled into development in rural areas, it may be necessary to simultaneously create conditions to raise the productive capacity of these areas.

One crucial element of the NREGA scheme on which there has been serious misunderstanding and controversy is the *wage rate* to be paid for the guaranteed work. The Act provides for minimum wages as fixed under the Minimum Wages Act. The minimum daily wages for unskilled work in rural areas vary widely across states and regions, between around Rs.40 to Rs.120. They do not seem to be related to local labour market conditions or levels of local development. In some regions they are fixed much higher than the prevailing market rate

of wages. For that reason, even some staunch supporters of the NREGA have doubts about the desirability of paying such wages under the programme as it would wean labour away from productive activities like agriculture and have an adverse impact on production. The Act itself provides scope for fixing a different wage rate, possibly a common minimum wage for the programme to be applied all over the country. There are legal, juridical and economic aspects of wage rates to be considered.

From past rulings of the judicial courts, it seems that it is not legally tenable to pay a wage lower than the statutory minimum wage – how can the State justify such a wage in employment provided by the Government, while the minimum wage is legally binding on private parties? Of course, it has the right to fix minimum wages at any level it considers fit. It can, however, be justifiably argued that there is no point in fixing the minimum wage at a level which does not meet the basic criterion for which legal provision is made – i.e. to ensure a minimum income, nor in fixing it at or below the market rate. In the case of a work guarantee programme, it is also relevant to recognize that the aim is not to guarantee work as such, but a minimum income through work. The income to be guaranteed must therefore have a reference level of livelihood. On the other hand, the economic argument that high minimum wages will attract workers away from productive activities could be relevant in a situation of labour shortage. At the same time, if payment of the minimum wage in a work guarantee programme leads to upward pressure in market wages in a depressed labour market it should be welcome as in this situation the programme can also indirectly contribute to alleviating poverty among rural workers.

Finally, the *cost of the programme* has caused a lot of controversy, particularly when the NREGA was in the stage of a proposal. Those opposing it and characterizing it as a wasteful and unproductive measure projected exaggerated cost estimates going up to trillions of rupees. Those supporting it projected the cost at between Rs.200 and 400 billion working out to 0.5 to 1 per cent of GDP and argued that funding it should not be a big problem. The debate is now, in a way, irrelevant. The legislation has been enacted and implementation began in February 2006. Irrespective of the provision made in the budget, finance will have to be provided as the Government is legally bound to provide funds to meet all demands for work that are made, subject to the maximum of 100 days for a household. On the basis of experience during 2006–07 in 200 districts, it will be possible to more realistically estimate the cost of applying the Act in all districts of the country.

It should also be possible to assess the extent to which the 100 days provision meets the actual work requirements of the rural households. This would, of course, require that information on the number of days for which a worker is available for work is also systematically collected at the time of registration and demand for work. As mentioned earlier, the limit of 100 days of guaranteed work substantively dampens the character of the NREGA initiative as a measure guaranteeing the right to work. It has also been argued, as well as observed, that the limited opportunity provided by the scheme is usually usurped by men. Similarly limited entitlement for all irrespective of their requirements amounts to inequitable treatment of households. Those in need of more than 100 days work do not get enough while those not requiring 100 days of work have similar access to work opportunities. This limit also makes the programme difficult to implement, as it requires work records to be maintained for each household separately. It could also provide scope for corruption in so far as there is a possibility of selling surplus entitlement to needy households!

There is, therefore, a strong case for removing the limit of 100 days and making the guarantee unrestricted. That such an open guarantee would involve costs that the Government can ill afford has been the standard argument against it. An earlier assessment (Papola, 2005) projected that an unlimited guarantee would in fact, cost much less than the cost being estimated

officially and unofficially for the restricted measure. The experience of implementing the restricted guarantee currently in operation should provide a reasonable basis for a realistic assessment in this regard. While making such an assessment it must also be noted that the work requirements per household may be much higher in the 200 districts currently covered under the guarantee than in the rest of the districts, as these selected districts are supposed to be the poorest with relatively larger demand for work by households.

VII. Emerging issues

The question of employment, which has occupied a significant space in the development debate in India over the past five decades, has assumed special importance in the wake of some disconcerting evidence thrown up by the experience of the last two decades of globalization. Globalization, it was feared, would entail, at least in its initial phases, losses for labour both in the developed and developing countries. Evidence put together by the World Commission on the Social Dimension of Globalization (WCSDG, 2004) revealed that though the impact of globalization on employment and wages has differed significantly among countries, open unemployment has increased in the world as a whole over the past decade. There has been a general decline in the degree of social protection in so far as the proportion of workers in the informal sector has increased. A limited group of skilled workers has gained while many unskilled workers have lost their jobs or have seen a deterioration in the quality of their employment. Increased mobility of capital without similar freedom of movement of labour has weakened the bargaining strength of workers and the overall power of the trade unions.

The most disconcerting trend in the Indian labour market following the intensified measures towards globalization has been a decline in the growth rate of employment. Employment had been growing at over 2 per cent per annum for over three decades, but grew only at 1 per cent during 1993–94 to 1994–2000 (see table 4). This was despite an acceleration in the rate of economic growth. Employment elasticity with respect to GDP declined sharply from 0.41 during 1987–88/1993–94 to 0.15 in the following quinquennium. Why similar GDP growth in the 1980s and in the 1990s produced such different outcomes in terms of employment has remained an intriguing question. A simple decomposition of employment growth by sectors, however, reveals that the major contribution to the decline in employment growth was made by agriculture, in which GDP growth was insignificant and employment elasticity almost zero, but which had a 60 per cent weight in total employment, thus pulling down the aggregate growth rate of employment (Papola, 2006). Most other sectors, particularly construction, trade, transport and also manufacturing, registered significant growth in employment. The phenomenon of declining employment growth, however, needs to be further investigated in its various aspects, including the quality and comparability of data that have been queried by some observers.

Will the period 1994–2000 turn out to be an aberration in terms of high GDP growth resulting in low employment growth? Has faster growth since 2000 led to better employment performance of the economy? Unfortunately, no data are yet available to answer this question. We will have no direct estimates of employment generated by the end of the Tenth Plan, viz. April 2007; at best estimates will be available for 2004, when the last NSSO survey was conducted. Assuming that the trend revealed by NSSO data for 1994–2000 has continued in the post-2000 period as well, the employment question will assume a serious development dimension in the Eleventh Plan. How can employment be given a special focus and what can be done differently from the past in guiding development towards this end during the Eleventh Plan? What use can be made of trade, fiscal, monetary and credit policies in promoting employment in the new economic context? These questions will need to be seriously examined and detailed

Table 4. Employment growth: 1972–73/1990–2000 (% per annum)

	1972–73 to 1977–78	1977–78 to 1983	1983 to 1987–88	1987–88 to 1993–94	1993–94 to 1999–2000
Agriculture	2.32	1.20	0.04	2.39	0.06
Mining	4.68	5.85	6.16	2.09	-3.27
Manufacturing	5.10	3.75	2.10	1.45	2.05
Construction	1.59	7.45	13.59	-1.10	6.61
Electricity, gas, water supply	12.23	5.07	4.64	3.39	-5.25
Transport	4.85	6.35	2.67	3.58	5.28
Trade	3.71	4.12	4.42	3.20	6.20
Services	3.67	4.69	3.92	3.76	0.55
Total	2.82	2.22	1.55	2.37	1.02

Note: Growth rates are on usual principal and subsidiary (UPSS) status, which defines a person as employed if carrying out economic activity as main or subsidiary basis during a year.

exercises undertaken on the alternative scenarios on sectoral growth patterns and corresponding policies at the macro and sectoral levels.

There is some evidence, based on the thin and limited sample surveys of NSSO and on other special studies, that employment might have seen a reversal of the trend observed during the earlier quinquennium and could have grown at over 2 per cent per annum since 2000. At the same time, there does not seem any indication of faster growth or rising share of the organized sector in employment. Why should employment become more informal and why should the share of the organized sector decline in the process of globalization, which is expected to lead to larger scale production units, greater standardization of products and more uniformity in employment practices? Among the factors that have led to greater informalization of employment in the past, new technologies enabling decentralized production and lower overhead costs are mentioned, but most often, labour regulations making workforce adjustment difficult are primarily blamed for non-expansion of employment in the organized sector. The issue has been debated on the basis of predilections and suppositions, without any concrete evidence. It is reasonable to argue that restrictions making it difficult for enterprises to reduce or restructure their workforce so as to maintain efficient operations are unreasonable and need to be removed, with of course, provision of adequate compensation to the affected workers. But the argument that such restrictions have been the main cause of slow or negative employment growth in the organized sector needs to be carefully examined.

The provision of a minimum degree of social protection to workers in the unorganized sector, who constitute the overwhelming majority, has to be accepted as a major challenge to be met in the near future. Various proposals, including the one from the NCEUS, require to be seriously considered and discussed in this regard. In terms of the possibility and scope for extending social security coverage to non-establishment, casual workers and daily wage earners, the NREGA offers a great opportunity. Since the NREGA and social security schemes for the unorganized workers have been worked out independently of each other, the idea of linking the two has not yet been explored. It should be possible to register workers simultaneously both for work and social security benefits and also arrange for contributions to be collected when work is offered and wages are paid. Separate government provisions, including the employers'

contribution, of course, need to be made in the funding scheme of the programmes. The provision of guaranteed work with a minimum degree of social security will make NREGA an exemplary measure of social protection incorporating employment, income and social security in an integrated manner.

Several other aspects of NREGA that need to be studied and assessed have been indicated earlier. The most important relate to its universalization and cost, the creation of productive assets and the level of wages to be paid under the work guarantee programmes. The case for providing unlimited days of work, instead of the maximum of 100 days per household as now, is quite clear from the perspectives of the right to work, poverty alleviation and equity as well as for easier and corruption-free implementation. It is, therefore, necessary that the cost implications of such a measure be worked out on the basis of experience of the limited guarantee over a year.

It is equally important to see how the asset-creating effect of the programme can be achieved more effectively than in earlier schemes, in spite of the fact that as a guarantee programme its emphasis on employment creation has obviously to be greater. It may be necessary to improve the capacity of implementing agencies to prepare suitable projects and to provide for skilled work and material to meet the requirements of the projects either within the guarantee programme, or by linking the guarantee programme with other development schemes in the area. Methodologies and a *modus operandi* for such capacity building and linkages need to be developed on the basis of action research at the local levels.

The issue of wage rates in the guarantee programme is of both theoretical and policy relevance and also has juridical significance. The programme under NREGA will have to pay the statutory minimum wage. Should it be at the same rate all over the country, or should the rates fixed by local governments under the Minimum Wages Act be made applicable for different regions as at present? In the event of minimum wages being substantially higher than the prevailing wages leading to diversion of labour from agricultural and other productive work, should the minimum wage be revised downwards, even to below subsistence level? Is it possible, as was often done in the Maharashtra Employment Guarantee Scheme, to suspend operation of the guarantee programme during the busy agricultural seasons? These issues would also require experience and observation-based research to arrive at suitable solutions. At the same time, the idea that the NREGA could assume a central place in development strategy, micro-economic policy and the political economy of decentralized development (see Bhaduri, 2005) needs to be seriously explored.

To conclude, the debate and therefore the agenda for studies and research on employment and labour in India are likely to be dominated by the issues of unstable and informal employment, lack of social protection and the work–poverty relationship, at least for the next decade. These issues are not new, but have assumed special significance in the wake of declining employment growth, particularly in the organized sector, increasing informalization of economic activities and employment, consequent shrinkage of social protection for workers and growing inequalities resulting in the perpetuation of poverty despite high growth of per capita income. While it is natural that the issues under debate reflect these emerging patterns of employment and labour use, it is somewhat intriguing that there is very little questioning of the development model that produces such contradictory and a-historical consequences of growth. The development path currently being followed appears to first render more and more workers vulnerable to insecurity by threatening their jobs and livelihood and reducing the coverage of existing safety nets, then to compel the policy-makers, academics and civil society to ponder over ways of restoring some degree of security to them! Is this pattern of development necessary and inevitable? The question deserves to be included in the agenda for debate and research!

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