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Growth, employment patterns and inequality in Asia: A case study of India

C.P. Chandrasekhar and Jayati Ghosh
January 2015



Regional Office for Asia and the Pacific

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Preface

By 2015, the ASEAN Economic Community (AEC), envisioned as a single common market and production base, will become a reality. This will lead to the freer flow of goods, services, investment capital and skilled labour in the region. Tariff and non-tariff barriers will be reduced, which will have implications for intraregional trade and investment. New opportunities for growth and prosperity are likely to emerge, but the challenge is to ensure that growth is inclusive and prosperity is shared.

Ultimately, the success of the Association of Southeast Asian Nations (ASEAN) regional integration will depend on how it affects the labour market and therefore how it improves the quality of life of women and men in the region. To prepare for the impact and find the opportunities to seize, the International Labour Organization (ILO) initiated with the Asian Development Bank a joint study to examine the impact of the AEC on labour. Findings from the series of studies that were initiated are collected in the 2014 publication *ASEAN Community 2015: Managing integration for better jobs and shared prosperity*. That report highlights the challenges and opportunities that will accompany the AEC, including managing labour migration, boosting productivity and wages and improving job quality. The report offers policy recommendations for creating better jobs and ensuring that the benefits of the AEC are equitably shared among different countries and sectors.

The background papers to the joint publication are available as part of the ILO Asia-Pacific Working Paper Series, which is intended to enhance the body of knowledge, stimulate discussion and encourage knowledge sharing and further research for the promotion of decent work in Asia and the Pacific. This paper by C. P. Chandrasekhar and Jayati Ghosh examines how employment patterns and changes in labour markets and processes have driven economic inequalities in Asia and specifically in India.

The ILO is devoted to advancing opportunities for women and men to obtain decent and productive work. It aims to promote rights at work, encourage decent employment opportunities, enhance social protection and strengthen dialogue in handling work-related issues. As countries in the Asia and the Pacific region continue to recover from the global economic crisis, the ILO's Decent Work Agenda and the Global Jobs Pact provide critical policy frameworks to strengthen the foundations for a more inclusive and sustainable future.

Yoshiteru Uramoto
Assistant Director-General and
Regional Director for Asia and the Pacific

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Abstract

This paper argues that economic inequalities in India have been driven by employment patterns and changes in labour markets, which in turn have been affected by macroeconomic policies and processes as well as forms of social discrimination and exclusion. While many Asian economies have shown indications of rising inequality in recent decades, the Indian experience is particularly remarkable in the way inequalities have intertwined with the economic growth process. Structural change (or the relative lack of it) and the persistence of low productivity employment in India are strongly related to falling wage shares of national income and growing wage inequalities and the close relationship between formal and informal sectors is the sharpest exemplar of this. Patterns of social discrimination along gender and caste lines have reinforced tendencies to create segmented labour markets that offer little incentive for employers to focus on productivity improvements.

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Abbreviations

AEC	ASEAN Economic Community
ASEAN	Association of Southeast Asian Nations
CSO	Central Statistical Office
GDP	gross domestic product
ILO	International Labour Organization
NDP	net domestic product
NNP	net national product
NSS	National Sample Survey
NSSO	National Sample Survey Organisation

1. Introduction

The main argument of this paper is that employment patterns and changes in labour markets and processes have driven economic inequalities in Asia – and specifically in India and macroeconomic policies and processes as well as forms of discrimination and exclusion have been the drivers of the changes in labour markets and process. The first section of this paper thus describes the broader context of developments in Asian economies before the second section moves into the particular assessment of trends in inequality in India. Structural change (or the relative lack of it) and the persistence of low productivity employment in India are discussed in the third section. In the fourth section, the informal sector is examined in more detail as the sharpest exemplar of employment and wage inequalities that persist in India. The final section considers how India's patterns of social discrimination along gender and caste lines have reinforced those tendencies to create segmented labour markets that offer no incentive for productivity improvements.

2. Recent employment patterns in Asia

In the immediate aftermath of the Second World War and the decolonization that followed, industrialization and the consequent diversification out of agriculture was seen as a prerequisite for economic growth and improved welfare. Such diversification was expected to draw workers out of unemployment or low-productivity employment and shift them into higher-productivity activities, thus raising average economic productivity and per capita income. There was recognition that increases in the productivity of those employed could slow down the aggregate growth of employment. But the investment of surpluses generated by higher-productivity activities was expected to raise growth; and the choice of a judicious mix of technologies was expected to make employment increases more responsive to the increases in output.

Hence, governments seeking to raise their respective country's average level of productivity and thereby per capita incomes in their economies were expected to imitate the most common trajectory of capitalist development and diversify away from agriculture, especially in favour of manufacturing. The differential levels and rates of growth of productivity across agriculture, industry and services, defined by the exogenously given trajectory of technology, seemed to make this shift an imperative. The development policy recommended was one geared towards realizing the required economic diversification.

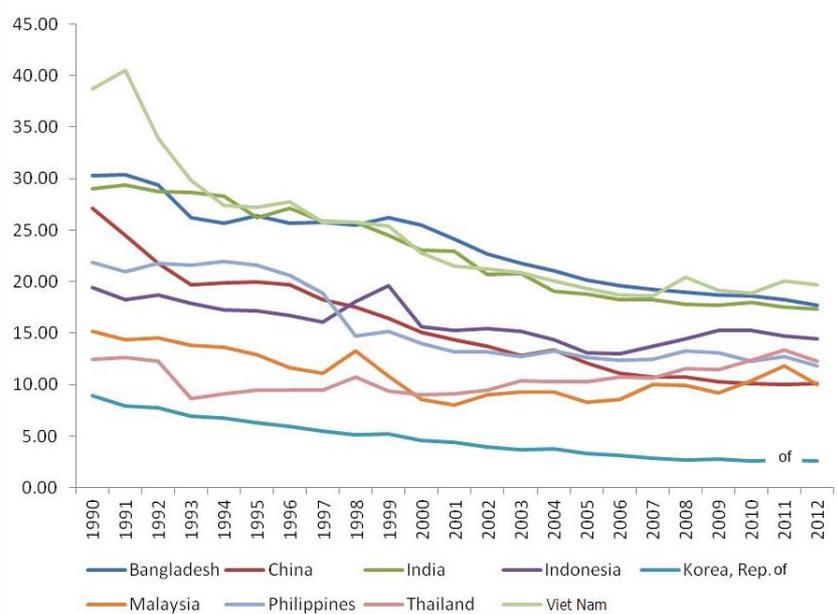
When the ideology of liberalization began to dominate economic thinking, the focus of attention shifted. Development policy was effectively restricted to two major strategies: first, withdrawing or diluting interventions that resulted in any deviation of domestic price levels and relative prices from international or "border" prices; and second, facilitating and supporting private investment to encourage its reallocation into areas in which the country had a competitive advantage in both production and trade. Although this could result in a trajectory of growth that was accompanied by a diversification away from agriculture to manufacturing, it was by no means guaranteed.

Has the shift in policy emphasis since the 1990s (away from directing investment into the manufacturing sector and towards allowing relatively unimpeded market forces to determine the allocation of investment) altered the development trajectory and, in the process, changed the relationship between employment and growth? We examine this question using a purposively selected sample of Asian countries that fall in four categories: (i) special category countries (the People's Republic of China and the Republic of Korea) with specific and diverse initial conditions that they

leveraged to pursue mercantilist strategies of industrialization with considerable success during different periods of time; (ii) second-tier countries experimenting with export-led industrialization in Asia (such as Malaysia, the Philippines and Thailand) that were successful to varying degrees in terms of both economic diversification and growth; (iii) countries with relatively large domestic markets, such as India and Indonesia, which also opted for policies emphasizing liberalization, especially after 1990; and (iv) small though differentially placed countries (such as Bangladesh and Viet Nam) that have also chosen to promote growth driven by external markets.

How have these countries performed in terms of economic diversification and per capita income growth since the early 1990s, when the liberalization policy was sufficiently generalized? The most basic indicator for such diversification relates to output and employment in primary activities, specifically agriculture. Assessing this requires recognizing the rather different initial conditions with respect to diversification that prevailed in those countries in 1990. Based on arbitrarily chosen ranges, four of the nine countries analysed (Bangladesh, China, India and Viet Nam) could be treated as heavily agricultural, with the agricultural value added exceeding 25 per cent of gross domestic product (GDP), even in 1990. Three countries (Indonesia, Malaysia and the Philippines) were moderately agricultural (with agricultural valued added to GDP in the 15–25 per cent range). And two countries (the Republic of Korea and Thailand) were heavily non-agricultural (with the agricultural value added to GDP ratios between 5 and 15 per cent).

Figure 1. Agricultural value added as a share of GDP in selected Asian countries, 1990–2012 (%)



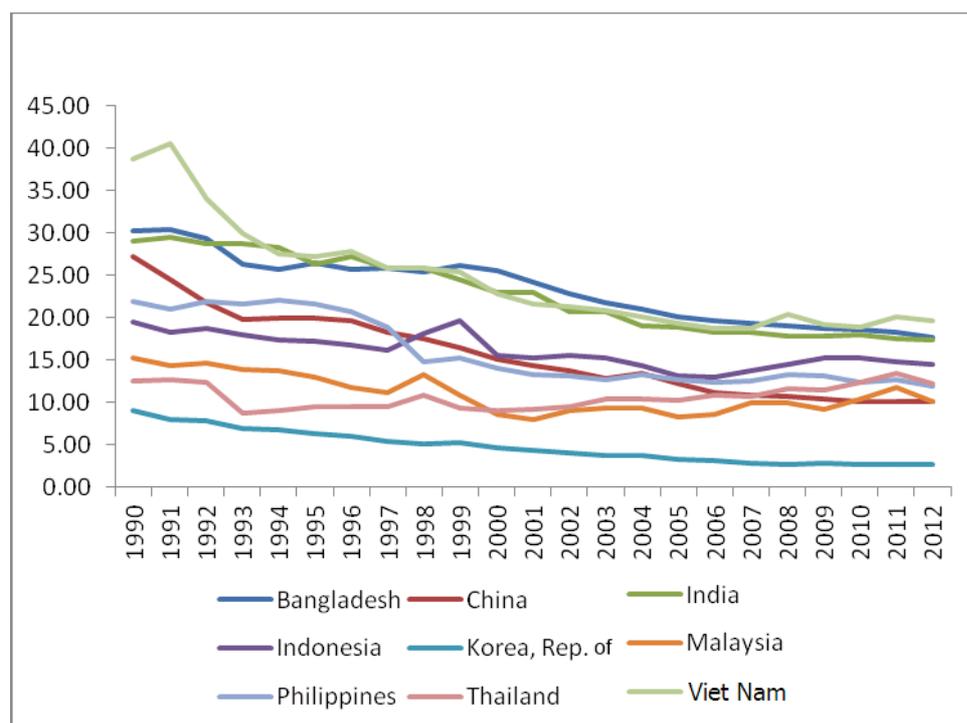
Source: World Bank World Development Indicators, <http://data.worldbank.org/data-catalog/world-development-indicators> [accessed 3 Mar. 2014].

Although all of these countries opted for liberalization in substantial measure, even if to differing degrees, the trajectory of diversification that characterized them varied considerably. There appears to be one common feature, however, albeit with exceptions. Other than the Republic of Korea, which already showed a small contribution of agriculture at the start of this period, there was a gradual but definite trend towards convergence across the selected countries in terms of the ratio of agricultural value added to GDP, with a faster decline in the share of agriculture in GDP among countries that were initially more agricultural. Among those that were heavily agricultural, there was a considerable decline in the share of agriculture, although the extent of decline in the case of China and Viet Nam (of more than 15 percentage points) was much greater than in Bangladesh and India (more than 10 but

less than 15 percentage points). In countries that were moderately agricultural, the decline in the ratio of agricultural value added to GDP continued, with the decline sharp (10 percentage points) in the Philippines, and modest (5 percentage points) in Indonesia and Malaysia. And finally, among the countries that were predominantly non-agricultural, Thailand experienced relative stagnation in the importance of its agriculture sector, while the Republic of Korea experienced continued decline of agriculture, with the ratio of agricultural value added to GDP touching a low of 2.6 per cent in 2012.

However, the direction of diversification out of agriculture seems to have varied (figure 2). While Viet Nam experienced a sharp rise in the ratio of industry value added to its GDP (of more than 15 percentage points) and Bangladesh and China had moderate increases (4–7 percentage points), India experienced relative stagnation. In Indonesia and Malaysia, the decline in the share of agriculture impacted on the share of industry in GDP, which rose by 6 percentage points from relatively high levels. However, in Malaysia, this occurred only until the global financial crisis of 2007, when the share began its decline, reaching its 1990 level by 2012. The Philippines, on the other hand, experienced relative stagnation in the share of industry at relatively low levels by comparative standards. Among the countries that were already largely non-agricultural at the start of this period, Thailand experienced a significant increase in the share of industry, whereas the Republic of Korea experienced a marginal decline, both from relatively high levels.

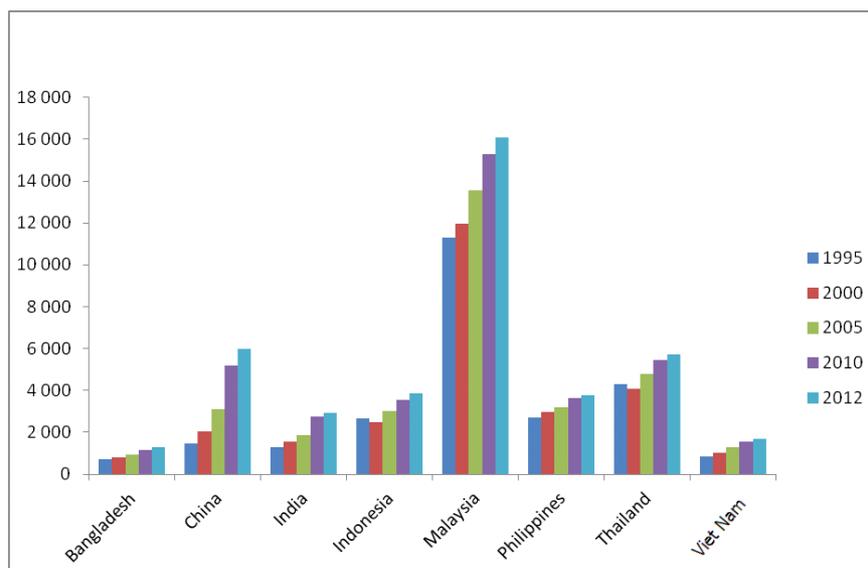
Figure 2. Industry value added to GDP in selected Asian countries (%)



Source: World Bank World Development Indicators, <http://data.worldbank.org/data-catalog/world-development-indicators> [accessed 3 Mar. 2014].

Thus, among these selected Asian countries, the classic pattern of diversification has been visible in the case of Bangladesh, China, Indonesia, Malaysia, Thailand and Viet Nam. Of these countries, China and Malaysia have registered dramatic increases in aggregate productivity, Indonesia and Thailand moderate increases and Bangladesh and Viet Nam rather limited increases, as measured by GDP per employed person in constant 2005 dollars (figure 3). Clearly, the areas of manufacturing into which countries other than China and Malaysia have diversified failed to deliver the expected increases in productivity. Had they delivered, however, it would have adversely impacted the potential for growth in output and employment.

Figure 3. GDP per employed person in selected Asian countries, 1995–2012 (constant 2005 dollars)



Source: World Bank World Development Indicators, <http://data.worldbank.org/data-catalog/world-development-indicators> [accessed 3 Mar. 2014].

Among the countries that did not experience the classic pattern of diversification, aggregate productivity increase was dramatic in the Republic of Korea (not shown in figure 3), significant in India and moderate in the Philippines. These outcomes indicate that productivity increases are possible even when the diversification is in favour of services. Clearly, what matters is the nature of the service sector. The Republic of Korea appears to have diversified into high-productivity services, yielding high levels of GDP per employed person, and India appears to have increased a combination of low- and high-productivity services in its portfolio, whereas the Philippines appears to have been unable to ensure adequate diversification into high-productivity services, as compared with the low-productivity services.

What thus emerges from the analysis is a complex picture of the relationship among liberalization, economic diversification and productivity increase. Although liberalization does not seem to preclude diversification away from agriculture towards industry, some countries that are largely agricultural do seem to experience trajectories in which diversification is more in the direction of services than industry. The experiences of Bangladesh, India and the Philippines suggest that being a laggard in industrialization works against industrial diversification in a liberalized environment; yet the experience of Viet Nam indicates that this need not be true necessarily.

Diversification towards services does not preclude productivity increases (measured by a crude index, such as real GDP per employed person), as the experiences of India and the Republic of Korea, which are at very different levels of per capita income, indicate. The real problem, therefore, would be employment. Independent of the trajectory of diversification, productivity increases imply that growth would have to be higher to absorb the unemployed and underemployed labour force. Thus, countries achieving large productivity increases would have to sustain high growth to address the employment problem. However, the surpluses generated even in countries that diversify into high-productivity activities may not be invested to drive growth enough to absorb the surplus labour. Growth can even prove inadequate to deliver sufficient employment when productivity is rising. For example, China, with its near-50 per cent investment rate, has only partially succeeded after a long wait.

On the other hand, countries that have not attained productivity increases may find that they experience growth rates that are sufficient to ensure adequate employment growth. But they also may

find themselves incapable of delivering reasonably paid and secure employment even to workers drawn into traditional low-productivity sectors. Thus, the real challenge of development seems to lie in finding a way to ensure decent employment for all rather than just raising productivity or accelerating growth.

3. Recent patterns of inequality in India

The recent experience of the Indian economy is startling in the extent of its deviation from almost all of the expected features of the classic economic development pattern. It is true that, for at least the first half century after independence, the Indian economy underperformed relative to expectations in various ways. The dirigiste period (up to the mid-1980s) has been much analysed from this perspective. And fingers have been pointed at the imbalances generated by the statist import-substituting growth trajectory that was implanted upon a society in which no major asset redistribution (such as land reform) occurred. That trajectory, associated with a relatively low rate of GDP growth, added to existing inequalities and did not generate the expected employment in non-agricultural activities. The exposure to external competition as well as the incentives generated by global relative prices in the subsequent period, when the Indian economy integrated more closely with global economic forces, was expected to bring about labour-intensive industrialization that would lead to Lewis-style shifts of labour out of agriculture and reduce inequalities over time. However, the growth trajectory from the early 1990s has provided more of the same conundrums, at times in accentuated form. For more than two decades, the Indian economy has been growing at average rates of 6–10 per cent per annum in real terms, tremendously faster than much of the rest of the world. Yet, the structural transformations envisaged by Lewis (1954), Kuznets (1965) and others appear to be just as elusive, and in some ways, there has even been retrogression rather than change along the anticipated lines.

This situation has been associated with significantly increased inequality, according to most available economic indicators. However, the only large-scale survey data in India relate to consumption expenditure, which, for several reasons, tends to understate the extent of inequality. First, those surveys tend to underestimate the tails of the distribution by excluding the very rich and the very poor. Second and possibly more importantly, consumption represents only a part (albeit a large part) of income; people who are poor are more likely to consume as much or even more than their income while the rich are more able to save.

Thus, income distribution is more unequal than consumption distribution. Focusing on consumption distribution not only understates the extent of inequality but also may not help in capturing changing trends, particularly if the changes are reflected more in savings than in consumption. The first detailed income distribution estimates for India (Desai et al., 2010) reveal quite high income inequality, with a Gini coefficient of 0.54 – around the same as Brazil. Estimates based on village surveys derive even higher Gini coefficients: on average, 0.645 across households and 0.595 across persons, even within villages (Swaminathan and Rawal, 2011).

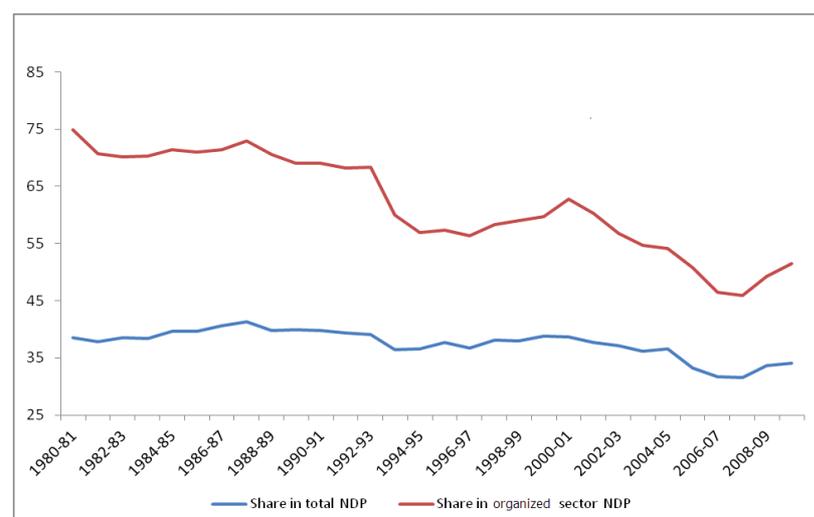
Even consumption data suggest increasing inequality of consumption, in both vertical and horizontal terms (Vanneman and Dubey, 2011). The national Gini coefficient for consumption increased from 0.31 in 1993–94 to 0.36 in 2009–10, while the ratio of urban to rural consumption went up from 1.62 to 1.96. The largest increases in consumption expenditure were concentrated in the top decile of the urban population: between 1993–94 and 2009–10, the income of the top urban decile went from 7.1 to 10.3 times that of the bottom urban decile and from 10.5 to 14.3 times that of the bottom rural decile.

There is another way of looking at distribution, which reflects the position of agents in the economy and identifies them as employers, workers, those receiving “mixed incomes” (typically because of self-employment) and those receiving income from financial investments. In many ways, this is the more economically illuminating look at distribution in an economy. The classical economists Smith, Ricardo and Marx all recognized that the most important issues regarding distribution related to the distribution of power and income among the classes, defined by their ownership of or relation to the means of production. Such a distribution affects many macroeconomic variables: the rates of saving and investment, patterns of accumulation, the nature of the growth process and so on. Regarding India, an examination of the behaviour of factor shares provides important insights into both the underlying forces of the current growth process and the implications of aggregate income growth for the conditions of workers and self-employed persons.

A 1986 study (Sandesara and Bishnoi) found considerable increase in compensation for employees in the 1960s and 1970s, from 35 per cent of total income to 41 per cent, as well as a decline in the mixed income of the self-employed. Both of these tendencies were interpreted to be part of the structural changes associated with growth and development and typical processes of the gradual transformation and diversification of the Indian economy. However, analysis of the data for the period after 1980 throws up quite different results. This period, in which the Indian economy is generally seen to have taken off in terms of transcending the so-called “Hindu rate of growth” of around 3 per cent and moving to a higher growth trajectory, has been one in which those tendencies have been less marked or even reversed.

Figures 4–6 reflect Central Statistical Office (CSO) data on factor incomes from 1980–81 to 2009–10. All the data refer to current price variables. Figure 4 shows that in terms of overall net domestic product (NDP), there has been a slight and slightly uneven decline in the share of compensation of employees, more marked especially in recent years. However, within the organized sector NDP, the decline is much sharper and even quite striking, with the share falling from 75 per cent in 1980–81 to 69 per cent in 1990–91 to 60 per cent at the turn of the century and then to as low as 46 per cent in the late 2000s, recovering slightly to 51 per cent in 2009–10 (the most recent available data).

Figure 4. Compensation of employees in net domestic product (%)



Note: NDP = net domestic product.
Source: CSO, National Income Accounts, various years.

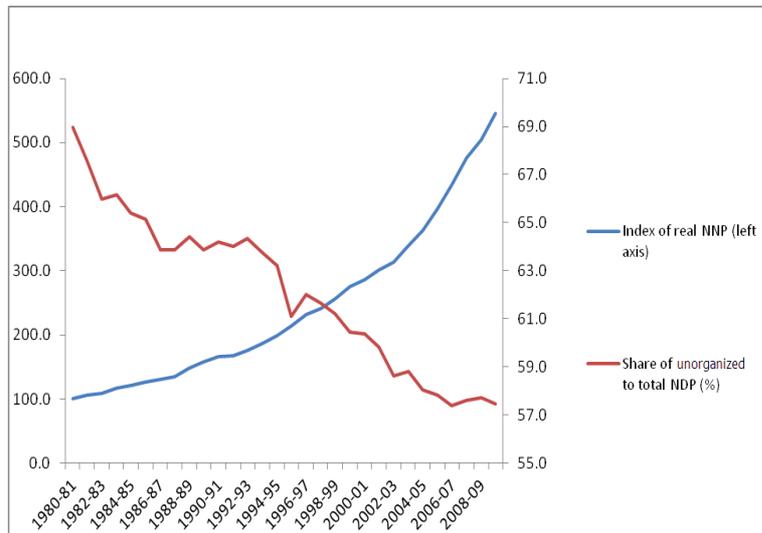
Until 2000, the Central Statistical Office provided data separately for operating surpluses and mixed incomes (typically received by the self-employed). However, for the past decade, this distinction was

not maintained, and thus it is no longer possible to estimate how the two have moved individually since 2000–01. Another important trend in the past three decades is also evident: the decline in the share of the unorganized sector in GDP. This is part of a longer-term trend of the previous two decades. They noted that the unorganized sector’s share of GDP declined from 74 per cent in 1960–61 to 66 per cent in 1980–81. As evident from figure 5, the decline in share continued in the subsequent decades, although it was somewhat moderated in the first part of the period and experienced a much sharper fall in the later period.

It is possible to link this decline with the growth of national income because the period of most rapid acceleration of net national product (NNP) was also the period of the sharpest fall in the share of unorganized incomes. This is obviously a process to be welcomed because it is evidence of the desired structural change. The concern is that it has not been accompanied by any increase (and even a slight decrease, according to the National Sample Survey Office (NSS) data) of the unorganized sector’s share in total employment. Thus, unorganized employment accounts for the overwhelmingly dominant share (more than 95 per cent) of all workers, even through the recent period of rapid growth when its share of national income was falling sharply.

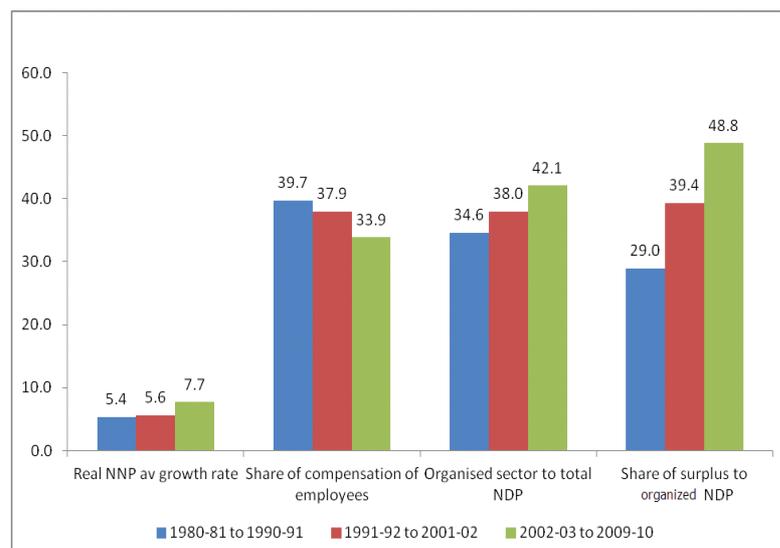
Based on the data presented in figure 5, it is possible to conceive of dividing the 30-year period into three distinct phases. The first break is clearly 1991–92, which marked the start of the liberalization phase and the market-oriented reform of the Indian economy. This, however, did not mark a major acceleration of the growth of national income, which remained at approximately the same rate for the next decade. The second break is 2001–02, not because of any major policy regime change but because this was a period of particular growth acceleration. Figure 6 shows that the third period experienced a jump to an average annual rate of 7.7 per cent, compared with around 5.5 per cent average annual growth of the national product in the first two periods. The subsequent bars in the chart indicate averages of share of NDP in each of the three periods.

Figure 5. Unorganized sector in net domestic product, 1980–81 to 2008–09



Note: NNP = net national product; NDP = net domestic product.
Source: CSO, 2009–10.

Figure 6. Factor shares in net domestic product, by period (%)

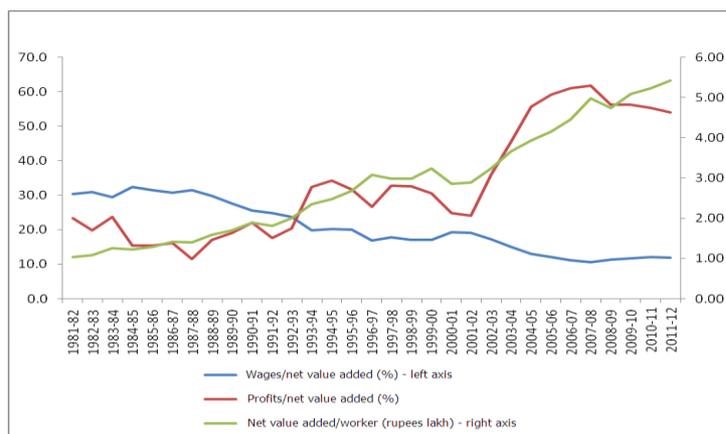


Note: NNP = net national product; NDP = net domestic product.
Source: CSO, 2009–10.

What emerges is that the period of growth acceleration was also the period of heavy decline in the share of compensation of employees in aggregate NDP, from an average of 38 per cent in the previous period to less than 34 per cent. Meanwhile, the share of the organized sector continued to experience substantial increases. But what is most notable is the huge increase within the organized sector's NDP in the share of surplus. It now accounts for nearly half of the income in that sector, which was a massive increase over three decades. In the period of rapid growth, clearly the growth focused on the organized sector in GDP terms (though unfortunately not in employment), and the greater part of the growth accrued to the surplus-takers. This confirms the reality that is increasingly apparent within Indian society of a growth process that has generated significant economic inequality and concentrated the gains among those who do not have to work as employees in the organized sector or as self-employed workers in the unorganized sector. Thus, the movement of factor incomes in India corroborates the tendency towards greater inequality.

Even in organized manufacturing, which has been among the more dynamic sectors in terms of increasing share of national income, the past three decades have been characterized by low and stagnant wages and falling wage shares of value added because of rising labour productivity in such activities. Figure 7 indicates that net value added per worker in India's registered manufacturing – a proxy for labour productivity in the organized manufacturing sector – rose continuously from the early 1980s onwards. However, workers did not benefit because the share of wage value added kept falling. Rather, profit shares tracked the movement of labour productivity quite closely, which suggests that the benefits accrued almost entirely to employers. This interpretation is reinforced by the evidence shown in figure 8. Real wages of workers in registered manufacturing industries rose from the early 1980s to the mid-1990s but thereafter fell and then stagnated, even though both output and value added grew rapidly in the later period.

Figure 7. Wages, profits and productivity in registered manufacturing, 1981–82 to 2011–12



Note: Lakh = 100,000 rupees.

Source: Annual Survey of Industries, various issues.

Figure 8. Real wages and wage shares in registered manufacturing, 1981–82 to 2011–12



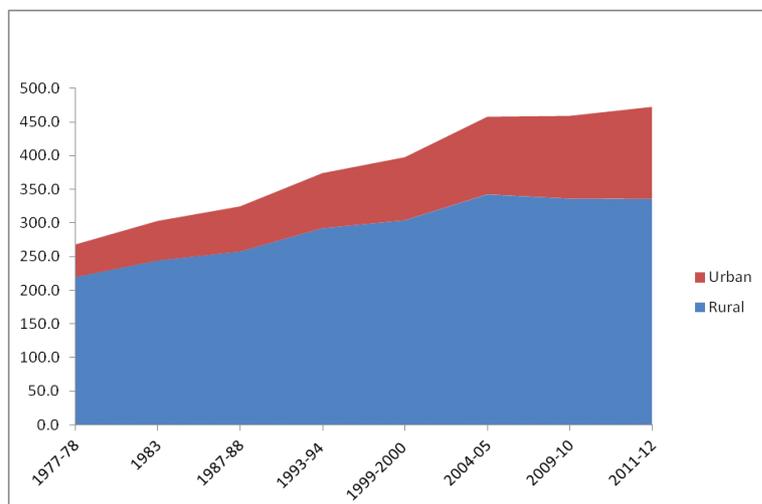
Source: Annual Survey of Industries, various years.

4. Employment growth and diversification in India

This discussion suggests that the gains from India's growth have concentrated among surplus-takers, including profits, rents and income. A major reason for this is that the growth has not been sufficiently employment generating; around half of the workforce continues to languish in low-productivity agriculture (even though that sector now accounts for around 15 per cent of GDP) and in low-remuneration services. The growth has been driven by internal and external liberalization measures that have attracted global financial investors. Capital inflows sparked a domestic retail credit boom, which combined with fiscal concessions to spur consumption among better-off households. This led to rapid increases in aggregate GDP growth, even though compressed public spending on basic needs, poor employment generation and persistent agrarian crisis reduced wage share in national income and kept mass consumption demand low.

Aggregate rates of employment growth in India have been disappointingly low, even with the rather loose and flexible definition of work that the National Sample Surveys (NSS) use (figure 1). Indeed, it is evident that total employment (in terms of usual status of work and principal and subsidiary activities) actually grew faster when the economy was growing more slowly and has tapered off considerably since 2004–05, with rural employment showing a decline in absolute numbers and urban employment growing by only 2.5 per cent annual compound rate between 2004–05 and 2011–12.

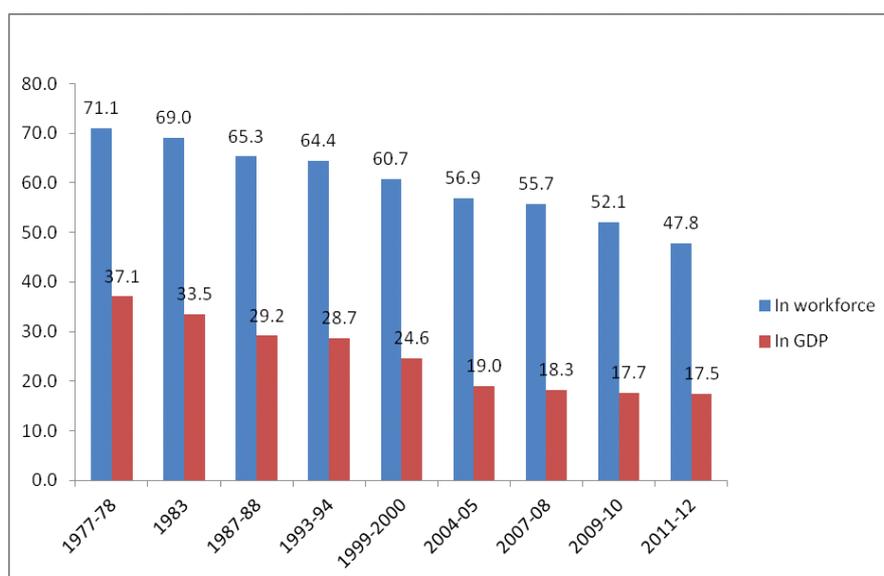
Figure 9. Total employment, in millions (usual status and principal plus subsidiary activities)



Source: National Sample Survey Organisation (NSSO) reports on employment and unemployment, various issues.

The persistence of low productivity employment has been evident in the continuing importance of primary activities in total employment and the domination of low-productivity service activities, accounting for the bulk of non-agricultural jobs. Although the share of agricultural and allied activities in GDP fell from around 55 per cent in 1960–61 to less than 18 per cent in 2011–12, the share of employment it accounted for declined much more slowly, from 72 per cent in 1960–61 to 48 per cent in 2011–12.

Figure 10. Share of agriculture in GDP (%)

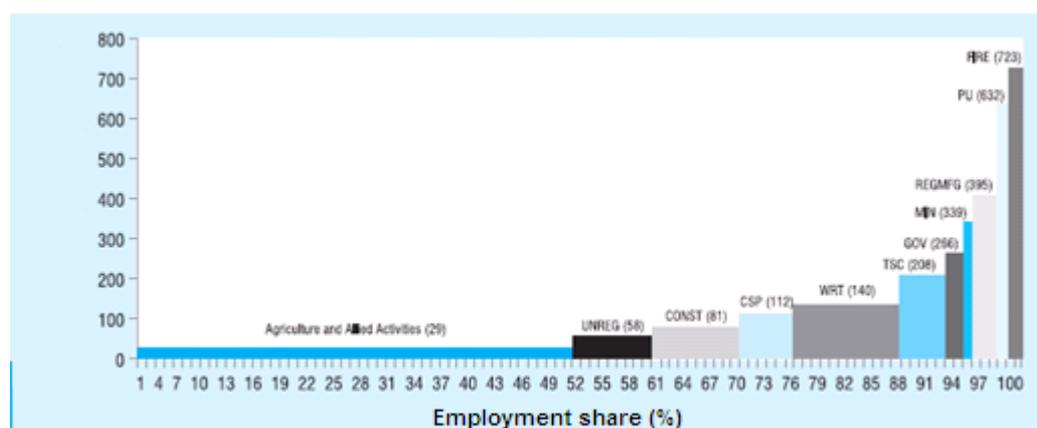


Source: NSSO various rounds and CSO, National Income Accounts.

Meanwhile, the share of manufacturing has stagnated at low levels of both output and employment – in 2011–12 it accounted for only 14.4 per cent of GDP and 12.6 per cent of the workforce. This has led some analysts to argue that India can successfully become a post-industrial service-driven economy on the basis of modern services that are associated with rapid productivity increases. It would be foolhardy to presume that the difficult but necessary stage of industrialization can be bypassed in this manner, especially considering that the newer services also generate very little additional employment.

The period since the early 1990s has been marked by stagnation of formal employment growth despite accelerated output growth and lower intensity of employment in the most dynamic manufacturing and services subsectors (Kannan and Raveendran, 2009; Arora, 2010). Even within sectors that are perceived as more dynamic, the majority of workers persist in low-productivity activities, with only a small minority in each sector involved in highly remunerated and high-productivity work. The most rapidly expanding activities in terms of GDP share (such as the finance, insurance and real estate sector and IT-related services and telecommunications, which together now account for nearly 20 per cent of GDP) still employ less than 2 per cent of the workforce. The persistence of the vast majority of workers in extremely low-productivity activities is thus evident (figure 11).

Figure 11. Labour productivity as a share of average labour productivity, by sector (%)



Note: UNREG = unregistered manufacturing; CONST = construction; CSP = community, social and personal services; WRT = wholesale and retail trade; TSC = transport, storage and communications; GOV = government; MIN = mining; REGMFG = registered manufacturing; PU = public utilities; FIRE = finance, insurance and real estate.

Source: Hasan et al., 2012, quoted in MOF, 2012, p. 32.

The productivity estimates for several service activities that are shown in figure 11, particularly those for the finance, insurance and real estate sector, are dubious at best because they reflect unsustainable asset price bubbles and associated remuneration rather than increases in real output. However, in 2009–10, there was also extremely large variation in productivity within the manufacturing sector, with the registered (organized) manufacturing industry showing nearly seven times the labour productivity levels of the unregistered (unorganized) manufacturing – and employing less than one third the number of workers. This is in marked contrast to the experience of China, for example, where the period of rapid growth has been associated not only with industrialization but with the emergence and preponderance of medium- and large-scale units that provide formal employment to workers. The persistence and continued domination of low-productivity work in all the major sectors despite several decades of rapid aggregate income growth suggests a particularly unusual growth pattern in India.

5. The persistence of informality

Associated with these trends, informal work overwhelmingly continues to dominate total employment in India. In 2004–05, informal workers were estimated to account for 96 per cent of all workers, and there is little evidence to suggest that the share of formal work would have increased greatly since then. The incidence of self-employment (most of it highly fragile and vulnerable) has actually increased as a proportion of non-agricultural work, and the only reason for its overall stagnation is the decline in agricultural employment, particularly in the number of self-employed women workers. Meanwhile, as noted, the share of the informal sector in GDP fell quite sharply during this period of high growth. The recent period of most rapid acceleration of national income (NNP) was also the period of the sharpest fall in the share of unorganized incomes. Thus, while the formal organized sector has substantially increased its share of national income, it has done so without drawing in more workers in the standard Lewisian trajectory.

The 2007 estimates by the National Commission for Enterprises in the Unorganized Sector (2007, tables 1.1 and 4) provide a much clearer picture of employment in the organized sector than previously available. The Commission made the much-needed distinction between “employment in the organized sector” (defined to include all enterprises employing ten or more workers that rely on electricity to operate or 20 or more workers without the need for electricity who are seen as subject to the Factories Act) and “organized employment”, or employment that is associated with a minimum of employment, work and social security. If organized employment is taken to consist of all employment in units that fall under the formal sector definition, then such employment is estimated to have risen from 54.1 million to 62.6 million between 1999–2000 and 2004–05. However, if the definition is restricted to “organized workers” in the organized sector, then “formal” employment in the organized sector fell marginally, from 33.7 million in 1999–2000 to 33.4 million in 2004–05. This compares with total employment of 361.7 million and 422.6 million, respectively. In sum, even when employment is in the organized sector, the nature of employment remains informal and insecure.

Though known to analysts and established by a number of field studies, the evidence to adequately assess and explain this persistence and the reproduction of informality” has been constrained by the limited aggregate evidence on economic activity outside the organized, or registered, manufacturing sector. Over the years since independence, different arms of the Government’s statistical apparatus have examined features of the unorganized, or informal, sector. However, the scope, volume and periodicity of such evidence have lagged when compared with data collection relating to the organized sector. In particular, as the National Statistical Commission (2012) notes, comparable and complementary evidence on different segments of the unorganized and organized sectors is still scarce or even absent.

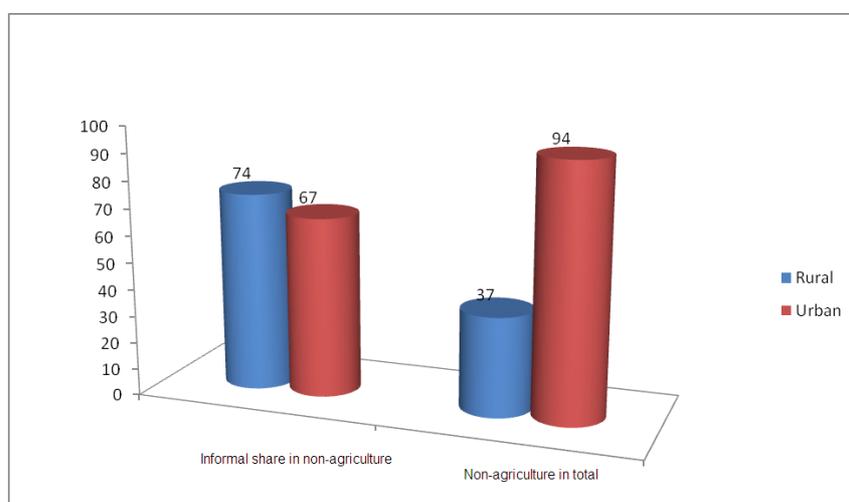
Part of the problem is the variation in definitions of the unorganized or informal sector, which attempt to draw boundaries between organized and unorganized and formal and informal by focusing on differences in features, such as technology, employment size, legal status and organizational form. In addition to the definitional variation, most surveys have limited themselves to parts of the organized sector, such as manufacturing, trade or other services, but leave out construction – an area that accounts for a significant share of income and employment in the economy.

The result is that the statistical basis for fully understanding the factors that underlie the persistence and reproduction of informality remains limited. However, there has been progress over time; in addition to the censuses (both decennial censuses and the few economic censuses conducted since the 1970s), the NSSO conducts periodic surveys that cover the unorganized sector: in the employment

and unemployment surveys and the enterprise surveys as well as a special survey of the informal sector.

These surveys capture the non-organized sector under such labels as the “unorganized sector”, the “informal sector” or “unincorporated enterprises”. But definitions even of the unorganized sector vary. Unorganized manufacturing enterprises are defined by their exclusion under the Factories Act and in terms of the number of workers employed in units operating with or without the use of electricity. The important dividing line here is the employment of ten workers if functioning with the aid of power or 20 workers when functioning without the aid of power. Outside of manufacturing, the unorganized sector is defined by its organizational form and as consisting of proprietary and partnership enterprises (in addition to those run by non-corporate entities, such as self-help groups, trusts and non-profit institutions).

Figure 12. Relative size of the informal sector in 2009–10 (%) (organizational definition)



Source: CSO, National Income Accounts, 2009–10.

Using the classification that identifies the informal sector as consisting largely of proprietary and partnership enterprises and restricting it to the non-agriculture sector and agriculture-related activities (excluding crop production), the employment and unemployment surveys for 2009–10 estimated employment in the informal component to be 74 per cent of total employment (principal and subsidiary status) in the relevant sectors in rural areas and 67 per cent in urban areas (figure 1). The non-agriculture and agriculture-related activities (excluding crop production) sectors accounted for 37 per cent and 94 per cent, respectively, of total employment in the rural and urban areas. If the analysis is restricted to just the non-agriculture sector, 71 per cent of workers in rural areas and 67 per cent in urban areas were engaged in the informal component in 2009–10. The sectors that accounted for a dominant share of the informal employment were manufacturing, construction and trade (wholesale and retail). They accounted for 76 per cent and 72 per cent, of all workers in the non-agriculture informal sector, in the rural and urban areas, respectively, as compared with 69 per cent and 59 per cent, respectively, of all workers in the non-agriculture sector.

The fact that sectors like trade and construction are important contributors to the unorganized sector and to informal employment is of significance, given the argument that it is regulation that is responsible for the proliferation of unorganized units and informal employment. However, the really stringent form of size-based regulation applies to the manufacturing sector, in which units that meet the criteria set by sections 2m(i) and 2m(ii) of the Factories Act need to register themselves and be

subject to factory legislation. This legal distinction does not apply to non-agriculture sectors outside of manufacturing.

It would be useful to assess the size of the non-agriculture sector, if the same criteria used to define unorganized manufacturing are applied to other non-agriculture sectors as well, going beyond the organization basis (in the form of proprietary or partnership forms). Tables 1–3 provide information culled from unit-level data relating to the employment and unemployment surveys for 2004–05, 2009–10 and 2011–12. This analysed period more or less covers the years of high growth, when GDP was increasing at a compound rate of 8–9 per cent per annum in most years, which should have had some impact on the nature of employment, with an increase in the share of organized-sector employment.

Table 1. Employment in the organized and unorganized sectors in India (millions)

	Public	Private	Others – agriculture	Total
2004–05				
Unorganized	12.1	173.3	243.7	429.1
Organized	10.4	18.4	0.0	28.8
Total	22.5	191.7	243.7	457.9
2009–10				
Unorganized	15.7	179.0	226.7	421.5
Organized	12.5	25.1	0.0	37.6
Total	28.2	204.1	226.7	459.1
2011–12				
Unorganized	16.0	193.6	214.2	423.8
Organized	16.0	32.7	0.0	48.7
Total	32.0	226.3	214.2	472.4

Note: 1. Total employment was computed using National Sample Survey (NSS) ratios, adjusted using census population estimates. 2. The organized sector in this table was defined as enterprises with 20 and more workers or enterprises requiring electricity with more than ten workers. All others were classified as unorganized.

Source: Author's calculations, based on above sources.

Between 2004–05 and 2011–12, total employment in the country rose from 457.9 million to 472.4 million (table 1). Over the same period, employment in the organized, non-agriculture sector, defined to include all units using electricity with ten or more workers and 20 or more workers if not using electricity, rose from 28.8 million to 47.7 million, whereas employment in the unorganized sector rose from 185.4 million to 209.6 million. Although the rate of increase of organized employment was higher than that of total and unorganized employment, it was merely the result of a low base. Even in absolute terms, there were more workers who joined the unorganized sector's workforce than the number who entered the organized sector. Even in 2011–12, as much as 86 per cent of workers in the private sector and 50 per cent in the public sector were in units that could be designated as unorganized, based on employment size (table 2).

Table 2. Distribution of non-agricultural employment, by unit type (%)

	Public	Private
2004–05		
Unorganized	53.84	90.39
Organized	46.16	9.61
2009–10		
Unorganized	55.77	87.71
Organized	44.23	12.29
2011–12		
Unorganized	49.96	85.56
Organized	50.04	14.44

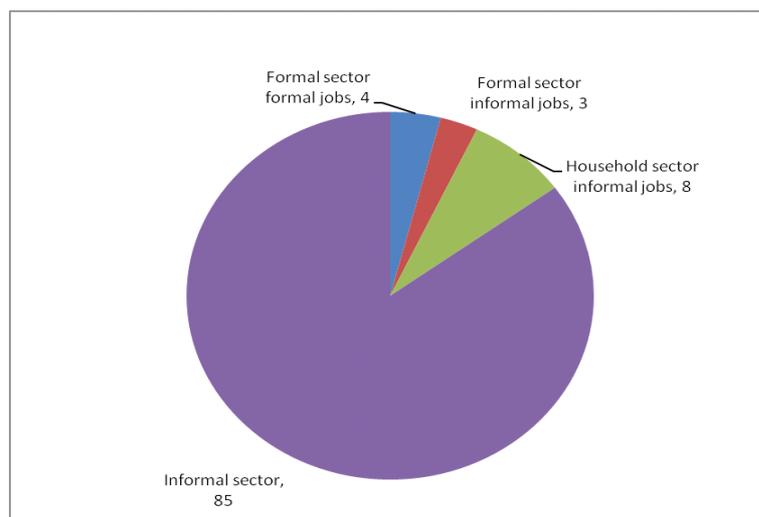
Note: 1. Total employment was computed using NSS ratios adjusted using census population estimates. 2. The organized sector in this table was defined as enterprises with 20 and more workers or enterprises requiring electricity with more than ten workers. All others were classified as unorganized.

Source: Author's calculations, based on above sources.

Relying on employment size alone would exaggerate the size of unorganized employment in the public sector relative to a demarcation of unorganized units that takes into account legal status, organizational form and the nature of the employment contract. Even if we consider just the last of these and take any employment where any one of three features - written contract, provision of social security (pension, etc.) and eligibility for paid leave - is present as indicative of employment being formal, we still find that 26 per cent of unorganized employment and 23 per cent of organized employment in the public sector is informal, whereas 95 per cent of unorganized and 54 per cent of organized employment in the private sector is informal in nature (table 3). (If we make the criterion stricter and designate employment as formal only if some social security benefit is provided, then informal workers constitute 42 per cent of unorganized public employment; and 32 per cent of organized public employment and 98 per cent of unorganized private employment and 67 per cent, of employment in the organized private sector.) Thus, when approached from the employment side, unorganized units still constitute an overwhelmingly large sector in the non-farm economy of India.

This remains true even if the definition of informality is made much stricter. Kolli and Sinharay (2011) combined the employment size and organizational basis characterizations of units to define the informal sector as consisting of all enterprises outside the public and private corporate sectors that employ five or fewer workers. Based on that definition, they found that the National Sample Survey (NSS) data for 2004–05 reflected that 85 per cent of jobs in the economy were in the informal sector, 4.5 per cent in the public sector, 2.5 per cent in the private corporate sector and 8.4 per cent in the formal household sector (figure 13). Even with this more restrictive definition of informal enterprises, the share of the formal sector was relatively small.

Figure 13. Distribution of employment, 2004–05 (%)



Source: NSSO, quoted in MOF, 2012.

Table 3. Distribution of non-agricultural employment, by job type in each category (%)

	Public		Private	
	Informal	Formal	Informal	Formal
2004–05				
Unorganized	12.31	87.69	94.50	5.50
Organized	6.64	93.36	56.49	43.51
Total	9.69	90.31	90.84	9.16
2009–10				
Unorganized	19.02	80.98	93.68	6.32
Organized	12.61	87.39	55.71	44.29
Total	16.19	83.81	89.01	10.99
2011–12				
Unorganized	25.62	74.38	94.49	5.51
Organized	22.99	77.01	54.28	45.72
Total	24.30	75.70	88.68	11.32

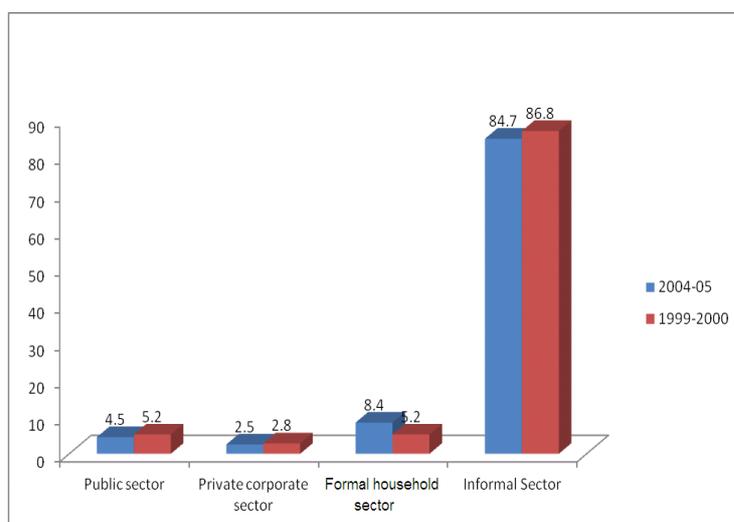
Note: 1. Total employment has been computed using NSS ratios adjusted using census population estimates. 2. Organized sector in this table was defined as enterprises with 20 and more workers or enterprises requiring electricity with more than ten workers. All others were classified as unorganized. 3. Formal employment was defined as any worker whose employment contract involved any one of these: written contract, availability of social security (pension, etc.) and paid leave.
Source: Author's calculations, based on above sources.

The dual characteristic of the non-farm economy comes out much more sharply when we look at the nature of units in the unorganized sector. The most recent evidence on the structure and status of the unorganized sector comes from the NSSO's 67th Round Survey of Unincorporated Non-agricultural Enterprises in manufacturing, trade and other services (excluding construction) conducted during July 2010 to June 2011. Based on the findings, the researchers estimated that there were 48,810 such units in rural areas and 8,863 units in urban areas, together employing 108 million workers who were more or less equally distributed between urban (51 per cent) and rural areas (49 per cent). Workers in these enterprises, however, accounted for 17 per cent of the total rural workforce and 46 per cent of the urban workforce in 2009–10 (figure 14).¹ One factor that needs to be kept in mind when reading these

¹ The ratios measuring the contribution of the informal sectors to total employment are with respect to economy-wide employment in 2009–10, though the informal sector figures relate to 2010–11.

figures is that the data are restricted to a few non-agriculture sectors, with construction, which is overwhelmingly informal, excluded.

Figure 14. Relative size of the informal sector, as defined by Kolli and Sinharay, 2009–10

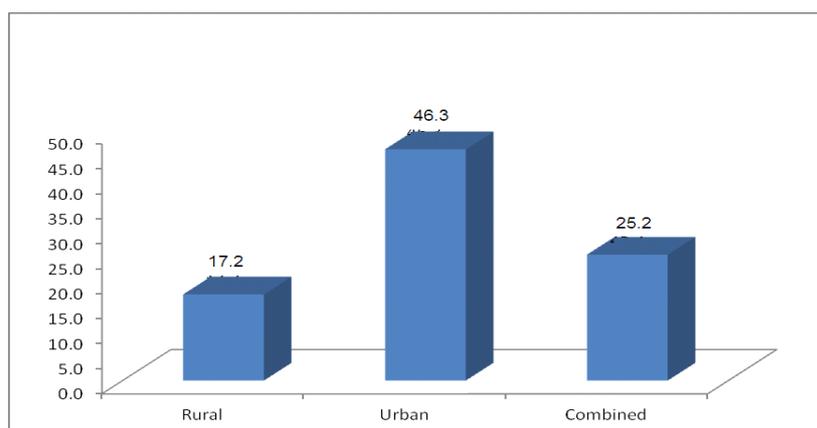


Source: Kolli and Sinharay, 2011.

What are the defining features of the informal sector when seen in terms of the units that populate it? To start with, the structure of the sector remains heavily biased in favour of small and organizationally “primitive” units. Across the rural and urban areas, own-account enterprises, or those that employ no hired labour on a regular basis, account for an overwhelming 84–86 per cent of all enterprises. Although the presence of own-account enterprises is greater in rural areas (91 per cent of the total), their share in total enterprises in urban areas amounts to a remarkable 77 per cent. (The employment and unemployment surveys for 2004–05 and 2011–12 indicate that units employing fewer than six workers accounted for 73.6 and 65.9 per cent, respectively, of total private sector employment.)

In terms of organization, proprietary concerns dominated the unorganized sector. Among own-account enterprises, they accounted for 95 per cent of the total in rural areas and 98 per cent in urban areas. The corresponding figures for establishments hiring workers were 95 and 94 per cent, respectively. Clearly, the transition to impersonal forms of organization has completely bypassed this sector.

Figure 15. Employment share of the informal sector in manufacturing, trade and other services (excluding construction) (%)



Source: Author's Own calculations, based on above sources.

The primitive nature of a substantial segment of the unorganized sector is also reflected in the fact that most units are typically “household units” located in household premises or units without a fixed location. In terms of location, 54 per cent of own-account enterprises in rural areas and 40.2 per cent in urban areas operated within household premises, and of those that were outside the household premises, 16.1 per cent and 17.3 per cent, respectively, had no fixed location (activities undertaken by street vendors or in mobile markets). Of the establishments employing hired workers, 63.1 per cent in rural areas and 83.9 per cent in urban areas operated in fixed locations outside the household premises. A dominant share of those units also had permanent structures.

In sum, units that cannot be described as primitive in terms of size, technology, employment and location, overwhelmingly dominate the non-agriculture sector of the Indian economy. As noted, one factor explaining this is the absence of employment opportunities in the formal economy in a country that provides no social security to the vast majority of its population. People must work if they and their families are to be saved from starvation. If agriculture does not provide the required opportunity, they find something to do in the non-agricultural economy, earning a low income.

But the implicit perception here is that the informal economy exists because low wages allow it to compete with the formal sector in a host of non-agricultural activities through manufacturing, construction and trade. However, the large relative size of the informal economy suggests that this ability to compete cannot be the sole explanation.

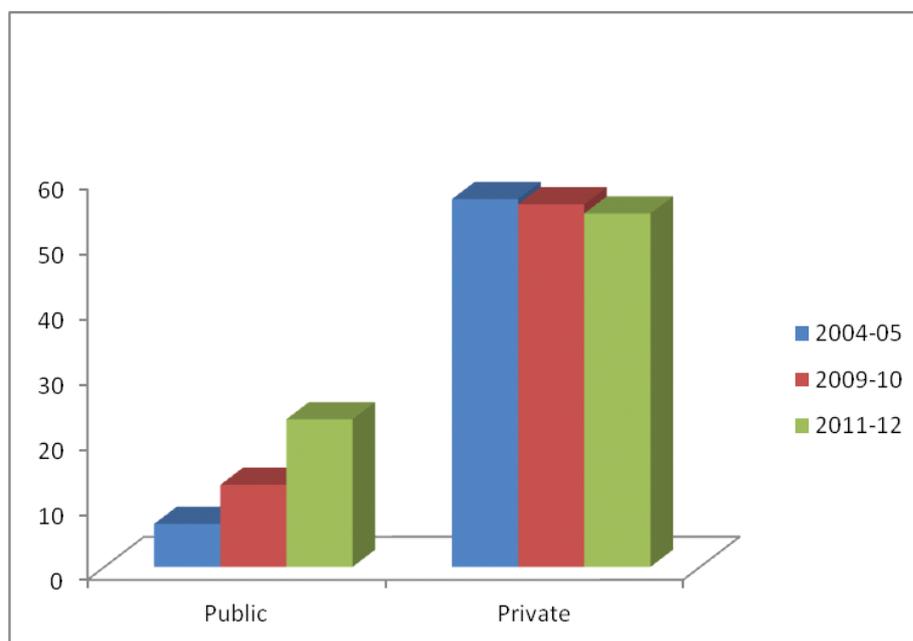
It is likely that it is not competition but complementarity that explains the continued prevalence and even domination of informal activities in both agriculture and non-agriculture. The perception that the informal economy exists because low wages allow it to compete with the formal sector in a host of non-agricultural activities is essentially misplaced in much of the Indian economy. In many instances, the informal economy actually services the formal sector, and the low wages in the informal economy help sustain the formal sector profits. Consider, for example, the software industry, which is generally seen as a shining example of hypermodernity, an outlier of high productivity that is somehow separate from the vast sea of low-productivity work that surrounds it. The ability of this industry to be competitive globally relies crucially on the very cheap supporting services in the form of logistics, security, transportation, cleaning and catering that are provided by companies or individuals who use workers on informal contracts that are well beyond the pale of labour protection. Similarly, the ability to hire highly skilled professionals in this industry at what are clearly salaries below global averages is dependent upon such workers’ ability to access goods and services provided cheaply by India’s

informal workers. Thus, workers in the informal economy have not been excluded from formal employment – they are deeply integrated into it, both directly and indirectly.

This is equally true of other areas in the formal sector. There is strong evidence of substantial increases in subcontracting by the formal manufacturing industry to more informal production arrangements since 2001 (Bairagya, 2010). The value chains evident in a number of important exporting industries in sectors as varied as ready-made garments, gems and jewellery, automotive components, leather and leather products and sporting goods, which are often coordinated by large and possibly multinational corporate entities, are evidence of the significant and increased contribution of informal activities to what is seen as formal sector production (Damodaran, 2010). These are only some examples of a wide and pervasive process of the extremely close intertwining of the formal and informal sectors and the subsidization of the formal sector by low-paid informal activities.

The direct dependence upon informal workers is not confined to private employers in the organized sector but is increasingly common in the public sector as well. Figure 16 presents data from various rounds of the NSSO employment surveys indicating this. Although the organized private sector in all non-agricultural activities has been heavily reliant on informal workers, the proportion of such workers has remained largely stable and even declined slightly in recent years. However, the public sector has more than doubled its reliance on informal workers since the mid-2000s, to the point where nearly a quarter of all workers in the public organized sector were informal in 2011–12.

Figure 16. Share of informal workers in organized non-agricultural activities (%)

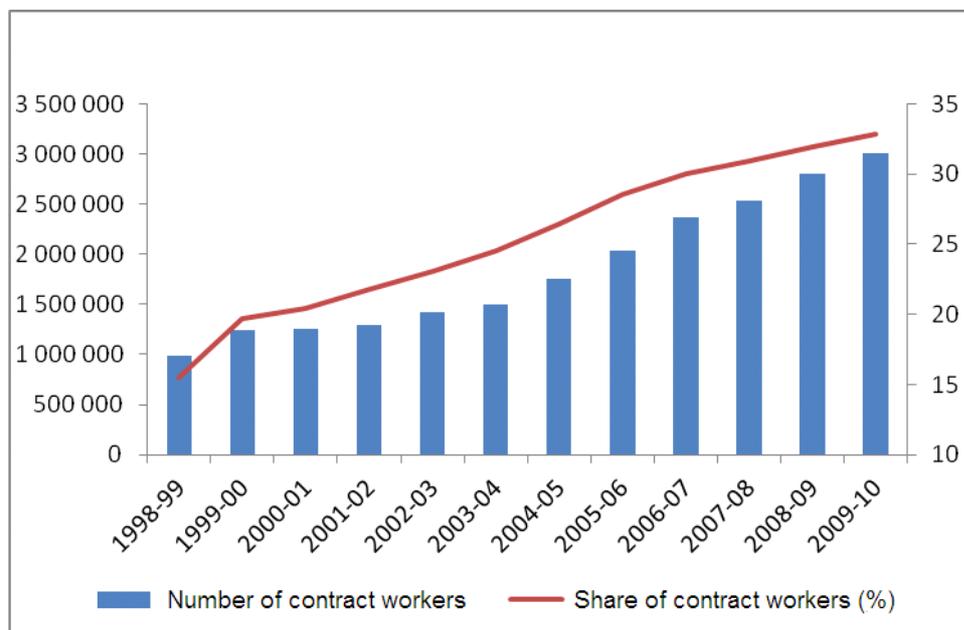


Source: Author

And there is yet another way in which informal workers – those without any labour protection under the law – are prevalent in formal economic activities and that is through the growing use of contract workers. Contractualization of work has become a pervasive feature of both the public and private employment in all three major sectors (primary, secondary and tertiary) and is particularly marked in mining, manufacturing and some services.

Consider the data from the Annual Survey of Industries on the use of contract workers in registered manufacturing. Figure 17 indicates that the period since 1998–99 has experienced a steady and large increase in both numbers and share of such workers. This has been especially prevalent since the mid-2000s. In other words, during the period of economic boom, when it might have been expected that there would be greater formalization of work, Indian manufacturing was growing more reliant on the use of casual contract labourers who have few legal rights.

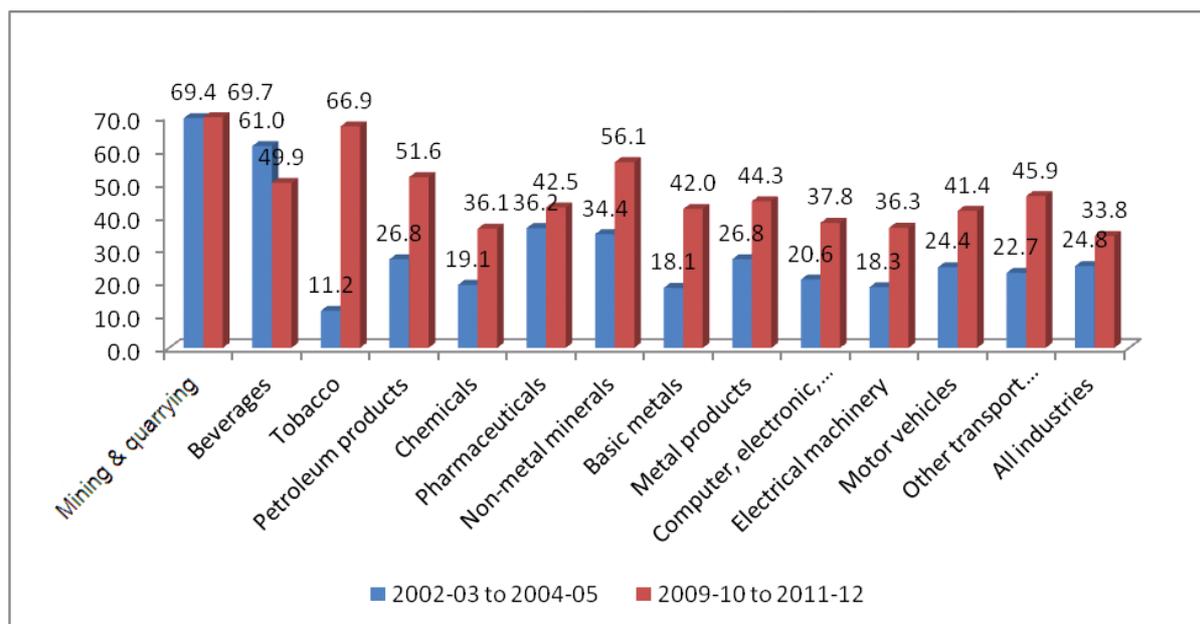
Figure 17. Contract workers in registered manufacturing



Source: Annual Survey of Industries, various years.

This was obviously more prevalent in some subsectors within industry. Figure 18 provides evidence on the changing proportion of contract workers to total over the past decade in some sectors where the use has been relatively high, using three averages for the periods 2002–03 to 2004–05 and 2009–10 to 2011–12. Registered mining and quarrying activities are among those that have used and continue to use the largest proportion of contract labour, well above two-thirds of the total. But there is also some indication of dramatic increases in the relative use of contract workers in other subsectors, most of all in tobacco but also in the chemical products and non-metallic metals industries. The transport sector in general – both motor vehicles and other transport equipment – also shows sharp rises, around a doubling, in the relative importance of contract labour. For beverages, the proportion of such workers appears to have declined, although contract workers are still half of all workers in that sector.

Figure 18. Proportion of contract workers, by sector (%)



Source: Annual Survey of Industries, various years.

Clearly, Indian industry has proved itself to be adept at sidestepping labour laws through the widespread use of subcontracting where possible and the use of contract labour without according them workers' rights in other situations. In this context, the frequent complaints about restrictive labour laws appear to be not just misplaced but even hypocritical because they have not prevented either public or private employers in registered economic activities from doing as they please by using contract workers, without regard to the law.

6. Labour market segmentation and growth: Gender, caste and other social categories

It is evident from the previous discussion that the pattern of capital accumulation in both of India's dirigiste and neoliberal periods has generated inadequate structural change, especially in terms of employment composition. One reason for this has been the reliance on growth strategies that have not sought to develop the domestic market for the mass consumption of goods through asset redistribution and the dismantling of traditional monopolies. The absence in post-independence India of comprehensive land reforms (which were so instrumental in dismantling traditional structures of economic control in Japan, the Republic of Korea and Taiwan (China)) has been a major underlying feature of the continuing structural inequality that has prevented broad-based economic growth. This relates to the (possibly resulting) persistence of gender biases, caste and other forms of social discrimination, which, in turn, allow segmented labour markets to persist and even intensify.

A basic feature of economic development in India has been exclusion of the bulk of the population: exclusion from control over assets; exclusion from the benefits of economic growth; exclusion from the impact of physical and social infrastructure expansion; exclusion from education and from income-generating opportunities; even exclusion from such basic needs as adequate nutrition. This exclusion has been along class, asset ownership and income lines, by geographical location, by caste and community and by gender. However, exclusion from benefits has not meant exclusion from the system – rather, those who are supposedly marginalized or excluded have been affected precisely

because they have been incorporated into market systems. India thus has a process of exclusion through incorporation. This process of simultaneous incorporation and exclusion has been especially marked in the recent phase of rapid accumulation of capital over the past two decades, when the Indian economy has been viewed globally as “a success story”.

Farmers facing a crisis of viability of cultivation have been integrated into a market system that has made them more reliant on purchased inputs in deregulated markets while becoming more dependent upon volatile output markets in which state protection is completely inadequate. The growing army of “self-employed” workers, who now account for more than half of the Indian workforce, have been excluded from paid employment because of the sheer difficulty of finding jobs but are nevertheless heavily involved in commercial activity and exposed to market uncertainties in the search for a livelihood. Those who have been displaced by development projects or other processes and subsequently have not found adequate livelihood in other activities are victims of the economic integration process and certainly excluded from its benefits.

These tendencies have been reinforced by the nature of the growth strategy adopted in India over the past two decades. The focus of the Indian State (and of most state forces at the regional level) has been on generating growth through various incentives designed to encourage the expansion of private capital. It is now obvious that this can quickly become prey to corruption, crony capitalism and the like. But it is possibly less obvious that this strategy generates incentives for private players who effectively militate against a more broad-based and egalitarian economic expansion. New forms of capital certainly emerged and proliferated as a result of this strategy, but they did so in a wider context in which the capital accumulation has been based essentially on extraction: of land and other natural resources, of the labour of workers and of the products of farmers and small producers of goods and services. This has reduced the incentive to focus on productivity growth and innovation as routes to more rapid growth because State-aided primitive capital accumulation and socially determined extra-economic relationships provide easier and more reliable means of generating private surpluses. All this has been reinforced under globalization rather than being diminished by external competition.

The point is that these transactions in land, labour and product markets are not voluntary exchanges between equivalent parties. Instead, the game is played with dice that are heavily loaded in favour of capital, especially large capital, through various means: social institutions that allow for discriminatory labour market practices; legal and regulatory institutions that enhance the bargaining power of capital; and political forces that actively engage in supporting all of these practices. The process of capital accumulation in India has used the agency of the State to further the primitive accumulation through diverse means (including land use change as well as substantial fiscal transfers) and has exploited specific socio-cultural features, such as caste, community and gender differences, to enable greater labour exploitation and surplus generation. These are, in turn, associated with various other more “purely economic” patterns that pile on the imbalances: financial institutions, input and product markets that do not provide reasonable credit access and so on.

Harriss-White (2005) argued that the greater part of the modern Indian economy is implicitly regulated or determined by social institutions derived from “primordial identity”, such as gender, caste and community. These interact with political forces, generating forms of patronage, control and clientelism that vary across regions. This makes the outcomes of government strategies, including those connected with liberalization, privatization and deregulation, different from those generally expected. Take the large bourgeoisie, for example, which is dominated by diversified joint family enterprises extending across different economic sectors. Even in the current globalization phase, caste, region and linguistic community have been crucial in shaping these business groups,

determining their behaviour and influencing their interaction with each other as well as with global capital (Damodaran, 2008). The emergence of such capital has often reflected social forces: for example, there are no major business groups in the North and East that are not from “traditional” business communities; and nationally, there are no Dalit business groups of significance. Existing practices, such as gender discrimination in property ownership and control, have often been reinforced by corporate behaviour, such as the ability to use legal forms (the Hindu Undivided Family form of ownership, for example) that deny any role to women (Das Gupta, 2012). These obviously have added to the weight of socially discriminatory practices – and they affected how business houses at large and medium levels have dealt with more purely economic forces as well as their attitudes to investment, employment and output.

Yet, it also could be argued that these features of the Indian economic landscape are precisely what have been crucial in generating the recent phase of rapid growth, even as they have allowed the persistence of backwardness and accentuated inequalities in the course of that expansion. The complex nexus between politics and the different levels of local, regional and national businesses has allowed for the appropriation of land and other natural resources, which has been an integral part of the capital accumulation story and fed into the way that the central and state governments have aided the process of private surplus extraction. More overt economic policies, such as patterns of public spending and taxation, are only one portion of this – a substantial part relates to the laws, regulations and their implementation (or lack of it) that provide the contours for the expansion of private capital.

These processes of direct and indirect underwriting of the costs of the corporate sector have been greatly assisted by the ability of employers in India to use social characteristics to ensure lower wages to certain categories of workers. Caste and other forms of social discrimination have a long tradition in India, and they have interacted with capital accumulation to generate peculiar forms of labour market segmentation that are unique to Indian society. Studies (such as Thorat, 2010) have found that social categories are strongly correlated with the incidence of poverty and that both occupation and wages differ dramatically across social categories. The National Sample Surveys reveal that the probability of being in a low-wage occupation is considerably greater for Scheduled Tribes, Scheduled Castes, Muslims and Other Backward Castes (in that order), compared with the general “caste Hindu” population. This is only partly because of differences in education and the level of skill, which are also important and which reflect the differential provision of education across social categories.

Such caste-based discrimination has operated in both urban and rural labour markets. One study of Delhi (Banerjee and Knight, 1985) found that heavy discrimination against Dalit workers operating dominantly through the mechanisms of recruitment and assignment to jobs led to Dalits largely entering dead-end jobs that are essential but poorly paid. Similarly, empirical studies of caste behaviour in rural India (Shah et al., 2006; Thorat et al., 2009) found that there are many ways in which caste practices operate to reduce the access of lower castes to local resources as well as to income-earning opportunities, thereby forcing them to provide their labour at the cheapest possible rate to employers. In addition to the well-known lack of assets, a large number of social practices restrict the economic activity of lower-caste and Dalit groups and force them to supply low wage labour in harsh and usually precarious conditions. These practices can be used to keep the wages of Dalit workers (who are extremely constrained in their choice of occupation) low, even in periods of otherwise rising wages. Human Rights Watch (2007) even noted the persistence of such practices and their economic impact during the period of the Indian economy’s much-vaunted dynamic growth.

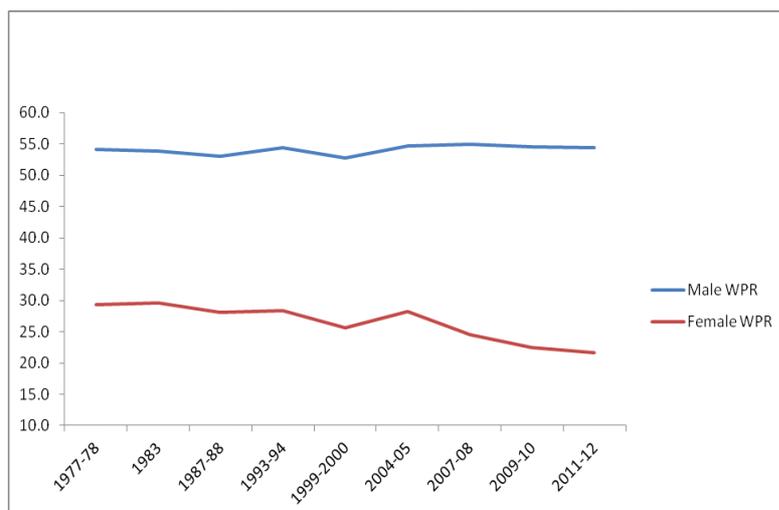
Gender-based differences in labour markets and the social attitudes towards women’s paid and unpaid work are also reflections of the broader tendency to keep wages low. The widespread perception that

women's work is an addition to household income and thus commands a much lower reservation wage is common to both private and public employers. With private employers, women workers within the Dalit or other discriminated groups typically receive even lower wages for similar work. In public employment, the use of underpaid women workers receiving well below minimum wage as anganwadi (health) workers or accredited social health activists has become institutionalized in running several major flagship programmes that are designed to deliver essential services of health care, nutrition, support for early child development and even education. Additionally, the contribution of the unpaid labour of women to social reproduction and to what would be recognized as productive economic activities in most other societies has been absolutely crucial in enabling India's particular capital accumulation process.

It is now generally accepted that most women work, even when they are not recorded as "workers" by official and other data gatherers. The tasks associated with social reproduction and the care economy are largely (though not solely) borne by women; but in many societies, these are not counted among the economic or productive activities. Similarly, many women are engaged in what is recognized otherwise as productive work but as unpaid household helpers who are only marginally seen as workers in their own right. The general "invisibility" of women's work is a mostly accurate reflection of their status in society; where women's official work participation is low, this is typically a sign of less freedom and mobility of women, lower status and little empowerment. Where more women are active in the labour market and are employed (especially in formal activities), the share of unpaid work tends to come down and even the unpaid labour performed by women is more likely to be recognized and valued. This is why looking at the extent, coverage, conditions and remuneration of women's work is often a useful way of judging the extent to which their broader status in society has improved.

Female work participation rates in India have historically been considerably lower than male rates and are among the lower rates in the developing world. What is more surprising is that despite three decades of relatively rapid GDP growth, these rates have not increased but have actually fallen in recent times. The gap between male and female work participation rates (for the 15 and older age group) has grown, with male rates remaining stable and female rates having declined below their already low levels. The decline is particularly sharp for rural women. The sharp decline in 2009–10 was dismissed as a statistical aberration when it first emerged in the NSSO large sample survey; but the subsequent large sample survey in 2011–12 revealed a further decline, implying that there is a real tendency at work that has to be understood and explained. In urban areas, women's work participation rates have been very volatile (possibly reflecting the vagaries of the sample survey), although over a mildly declining trend.

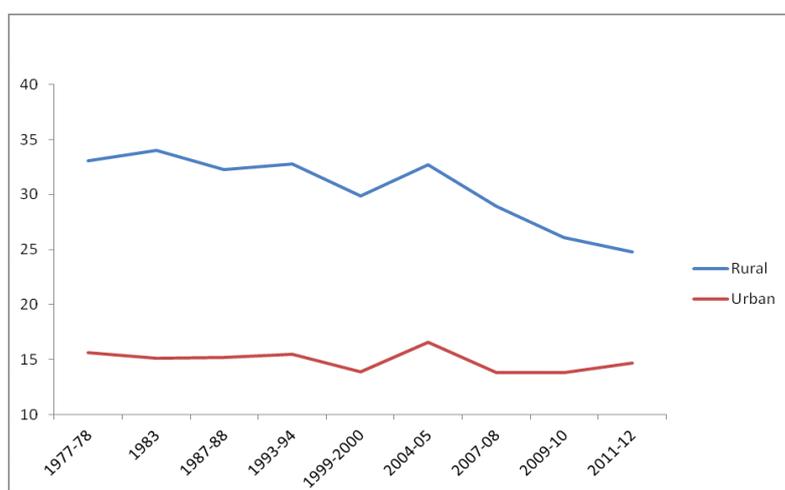
Figure 19. India's work participation rates (usual status, principal and subsidiary activities) (%)



Note: WPR = work participation rate.

Source: NSSO surveys of employment and unemployment.

Figure 20. Female work participation rates (%)



Source: NSSO surveys of employment and unemployment.

It is widely believed that the decline in work participation rates is chiefly because of increasing participation in education, which is to be welcomed. It is certainly true that female participation in education has increased in both rural and urban areas, especially since 2007. However, this still does not fully explain the total decline in female labour force participation, which has been much greater (relative to the increase in those engaged in education) in rural India and somewhat greater in urban India. Also, the decline is clearly evident even for the 25–59 age group, where there is little indication of increasing involvement in education. Labour force participation rates (which include workers and those openly unemployed who are searching but not finding jobs) closely track the work participation rates, to the point that open unemployment rates of women have been falling because of declining labour force participation. It may be that the “discouraged worker” effect is particularly strong for women, or it may reflect other social causes that inhibit engagement in recognized work.

Much of the decline in work participation has been among self-employed workers, including (but not only) those involved in agriculture. The growing mechanization of agriculture has helped reduce the demand for women’s work. In addition, changes in ecological conditions have led to declines in many

rural activities once performed mainly by women, such as the collection of minor forest produce. Women's displacement from agricultural activities and increased informalization are likely to be associated with both a real decline in women's participation rates and a greater degree of undercounting of their participation rates. The undercounting of women's work in rural India may be prevalent because of the growing phenomenon of seeking brides from other areas in regions with a low female sex ratio because these women are then used as unpaid workers in homes and fields.

Other changes, such as the growing difficulties of collecting fuelwood and water, have increased the time that has to be devoted to unpaid labour. The time that has to be allocated to unpaid labour – in the form of not just various economic but unrecognized activities, such as provisioning essential items for household consumption and the care economy generally – is likely to be an important reason for the withdrawal of women from the labour force (Mukherjee, 2012). This is confirmed by the strong inverse relationship between work participation and involvement in what the NSSO classifies as domestic work (code 92: looking after children, taking care of the sick and the elderly, preparing food and other tasks associated with home management) and expenditure-saving activities (code 93: geared mainly towards household consumption, such as the maintenance of kitchen gardens and orchards, taking care of household poultry and cattle, collection of firewood, fish, etc., husking of paddy, grinding of food grains, preparation of cow dung cakes, fetching water, making baskets and mats for household use, sewing, tailoring, weaving, tutoring children and so on).

Most women, even those classified as non-workers are engaged in these activities, which are clearly economic activities even when they are not socially recognized as such. It is also evident from the NSSO surveys that the greater proportion of women who engage in these tasks do so because there is no one else to do this for the household, which suggests that the requirement to engage in such unpaid domestic labour can constrain the possibility of women engaging in outside work for remuneration. It is clear that in addition to broader socio-economic processes, state action has a critical role in affecting the extent to which such unpaid work is required. The lack of basic infrastructure and amenities, such as piped water or cooking fuel, obviously adds to the time required to procure or collect fuelwood or water for household use. The lack of public care services, including medical care, increases the burden of care work that falls on household members.

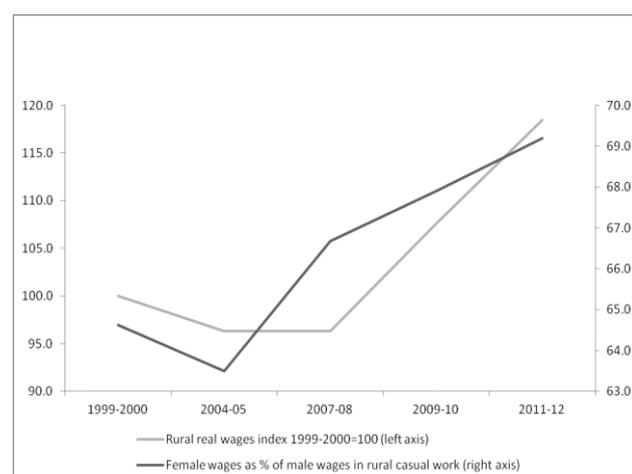
Social perceptions about women and their capacities are also important factors. It is ironic but true that mechanization has tended to displace women workers, particularly in agriculture and construction. Just as some activities become less arduous and physically taxing, women who were previously engaged in such work are replaced by male workers. But there is really no physical reason why women should be less able than men to drive tractors and harvester-threshers or to operate construction machines. Rather, it reflects the persistence of what should be archaic attitudes towards women and the work that they are fit to perform.

However, it is also likely that women may wish to quit the labour force when there is no pressing need because the paid work that is available for most of them is so arduous, taxing and poorly remunerated. This is why much of women's work participation in India is of the "distress" variety, engaged in when the household is very poor or when there is a natural calamity, economic shock or other decline in household income (Srivastava and Srivastava, 2010; Himanshu, 2011). Because paid work is not so readily available and what is available tends to be both difficult and poorly remunerated as well as associated with the double burden of paid and unpaid work, it is not implausible that some improvement in household income levels could result in reduced pressure for women to seek outside employment.

These factors point to why women workers could be withdrawn from the labour force as household incomes increase, even in relatively poor families. The peculiar form of the backward-bending labour supply curve for households also could be the outcome of patriarchy, because men prefer to restrict the mobility and autonomy of their womenfolk and their access to independent incomes once households move beyond extreme penury and confine working-age women to mostly unpaid and unrecognized work within the home. As table 1 suggests, this tendency unfortunately may be evident in many parts of India, not only those that were traditionally associated with low female workforce participation but even in regions where more women once openly engaged in the labour market.

The income factor is important because real wages for casual work in rural India have increased considerably in the recent period, and the gender wage gap has also declined (figure 21). This could be the result of several factors, but the role of the Mahatma Gandhi National Rural Employment Guarantee Act in stabilizing the rural wage floor and providing a better bargaining situation for rural workers is possibly the most important. Wages have also increased in urban India. It is tempting to see this as the result of the growth process generating higher labour demand, but this does not seem evident in any sector other than construction, which has emerged as the most dynamic employer in the recent period. But even in urban India, to the extent that Rural Employment Guarantee Act has reduced and moderated the rural–urban distress migration for work, it is likely that it has had some underlying impact on the bargaining power of unskilled workers and thus their ability to command wages that are closer to the official minimum wages.

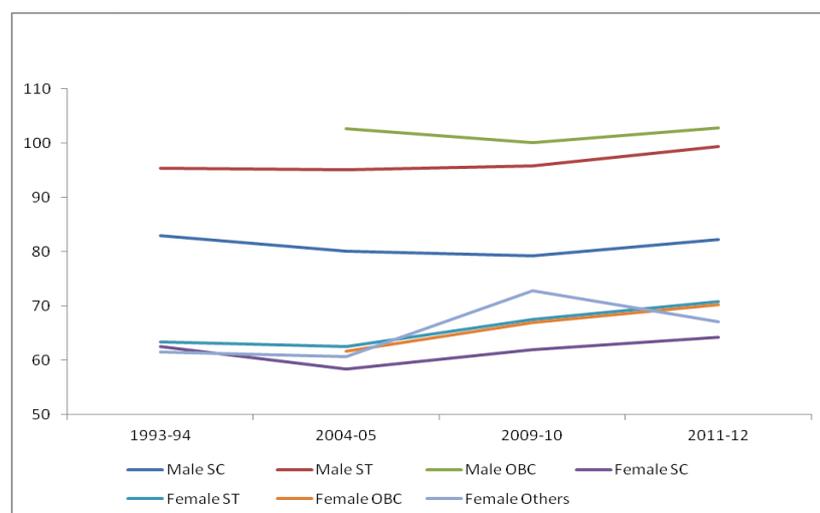
Figure 21. Real wages for rural casual work (other than public works)



Source: National Sample Survey Organisation, various surveys.

However, recent evidence of the wage gaps in Indian by social category suggests that this overall picture may be changing, albeit to a limited extent only. Figure 22 tracks the differences between wages (across all activities and all education levels) by gender and social category, according to the NSSO surveys since 1993–94. The wages here refer to payment received by casual labourers in all rural activities across all age groups. The wages of other groups are expressed as a percentage of the wages received by males who are not from Scheduled Caste, Scheduled Tribe or Other Backward Classes (from 2004–05 only). This “other” category tends to be dominated by upper-caste Hindus, although of course it contains some other social groups, and so this provides an indication of the extent to which labour markets reflect wider social discrimination.

Figure 22. Rural casual wage gaps, by social group (wage as a proportion of wages of male others, all ages) (%)



Note: SC = Scheduled Caste; ST = Scheduled Tribe; OBC = Other Backward Class.
Source: National Sample Survey Organisation, various surveys.

It is evident from figure 22 that wage differentials by social category are large in rural India. Gender discrimination is clearly the strongest feature that emerges; female wages for all categories are lower than the lowest male wages (received by Scheduled Caste men). This is well known, of course, but the chart also points to some reduction in gaps after 2004-05, for Scheduled Tribe men and more particularly for women across all social categories. The biggest relative improvement has been for women from Scheduled Caste and Other Backward Class groups. There was quite a sharp improvement for women in the “other” category in 2009-10, with a slight setback thereafter; but even so, the gap in 2011-12 (with such women’s wages at 67.1 per cent of “other” male wages) was 6.4 percentage points lower than it was in 2004-05.

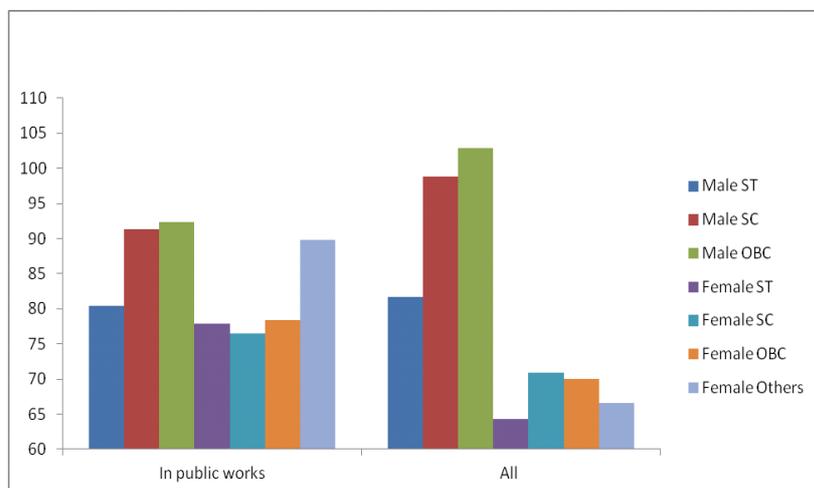
What explains this improvement? Some analysts point to rapid economic growth as the main force that has been undoing the socially driven patterns of wage and occupation discrimination. However, the income growth process has not been accompanied by large increases in employment, other than in a few sectors, such as construction. In fact, aggregate recorded employment has declined for women over this period, mostly because of declining self-employment and less engagement in casual labour. The standard notion that higher growth has generated more demand for labour and thereby led to higher wage rates is complicated by the lack of increase in aggregate employment.

One other big change in rural India over this period has been the expansion of employment in public works, most of all the works resulting from the Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA). Because of the wage and work norms that are defined in the Act, it has the potential to stabilize rural wages at levels that are at least close to the legal minimum wage and even to increase them beyond it in some cases, to reduce the extremely exploitive working conditions that prevail in rural labour markets in many parts of India and to provide work on relatively equal terms to women and workers from Scheduled Castes and Tribes who are routinely discriminated against in rural labour markets.

Although there are many criticisms of the uneven and often inadequate implementation of the Act, there is some evidence that a positive effect has been realized to some extent. Figure 23 (which covers workers in the 15-59 age group) shows that rural wage gaps for casual labour in public works (including the MNREGA) are much lower than for all rural casual workers. The difference is sharpest

for women workers, who are clearly the disproportionate beneficiaries of the public works in terms of improving wages.

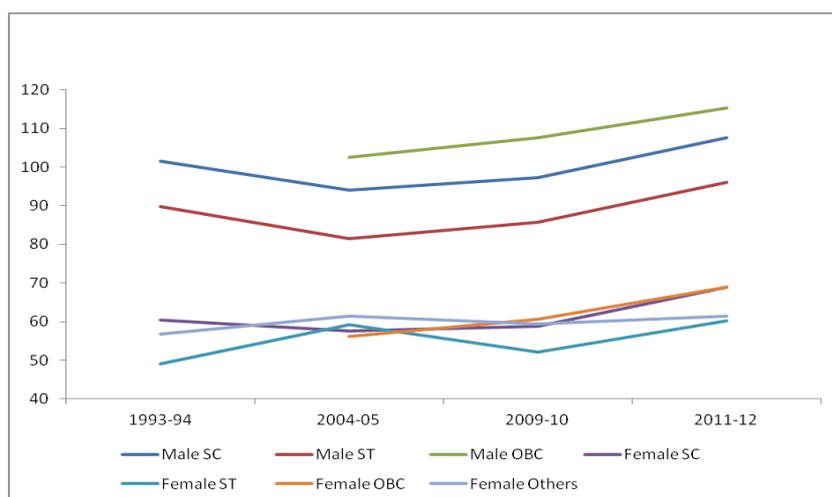
Figure 23. Rural wage gaps, by social category, 2011–12 (proportion of other male wages for ages 15–59) (%)



Note: SC = Scheduled Caste; ST = Scheduled Tribe; OBC = Other Backward Class.
Source: NSSO, various surveys.

It is interesting that even in urban India there has been some reduction in some of the prevailing wage gaps by social category, even though there are no public works that could have delivered this positive impact. Figure 24 covers all urban casual workers of all ages. Here the impact on women workers is marginal – there is no change at all in the relative position of “other” women casual workers since 2004–05, and only Other Backward Class women workers show some improvement. Women’s wages still remain pathetically low relative to men workers in urban India.

Figure 24. Urban casual wage gaps, by social group (wage as a proportion of wages of male others, all ages) (%)



Note: SC = Scheduled Caste; ST = Scheduled Tribe; OBC = Other Backward Class.
Source: NSSO, various surveys.

It is evident that the relative improvements since 2004–05 have been most marked for male workers. Because this relates to casual work, the impact of such factors as a reservation in certain types of

public employment is not relevant here. It is possible that in urban areas the recent pattern of growth – and in particular, the huge role of the construction boom – has had an impact on reducing wage gaps for male workers in particular (because women are less employed in construction as it becomes more mechanized). Because construction has become the only dynamic employer among sectors in urban India, this probably has driven the rise in real wages over this period.

If this is the case, then the recent evidence of the bursting of the urban real estate bubble and stagnation or decline in construction activities across many parts of India is likely to have labour market implications as well. The reduction in wage gaps and the rise in real wages are unlikely to be sustained in urban India in the absence of any other economic stimulus or public intervention to guarantee some urban employment.

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Growth, employment patterns and inequality in Asia – A case study of India

This paper argues that economic inequalities in India have been driven by employment patterns and changes in labour markets, which in turn have been affected by macroeconomic policies and processes as well as forms of social discrimination and exclusion. While many Asian economies have shown indications of rising inequality in recent decades, the Indian experience is particularly remarkable in the way inequalities have intertwined with the economic growth process. Structural change (or the relative lack of it) and the persistence of low productivity employment in India are strongly related to falling wage shares of national income and growing wage inequalities, and the close relationship between formal and informal sectors is the sharpest exemplar of this. Patterns of social discrimination along gender and caste lines have reinforced tendencies to create segmented labour markets that offer little incentive for employers to focus on productivity improvements.

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