EMPLOYMENT
PAPERS

4

Adjustment, employment and equity in India

S. Guhan and K. Nagaraj
Professors at Madras Institute of Development Studies

Employment Department
International Labour Office Geneva

ISBN 92-2-109794-3

First published 1995

Printed by the International Labour Office, Geneva, Switzerland

Foreword

In this paper the two authors comment on India's economic performance during the early 1990s and put into perspective the government's plans for economic reform. They make the point that the changes announced and, by 1995, taking place, in the policy framework surrounding Indian industry do not reflect a basic change in the ideology of development. Above all the role of the central government is not to be weakened and the authors stress the complementarity of public and private capital expenditures as an argument for building up the former. The authors present a comprehensive picture of the Indian labour market in which the public sector supplies the bulk of employment of an acceptable quality while underemployment and poverty go in tandem.

The origins of the recessionary period of 1991-94 are traced back to a series of events including a drying up of remittances and slow down in exports, which much weakened India's foreign reserve situation. The resulting stabilization measures and cuts in public expenditure had their expected effect of reducing inflation and giving the government greater freedom to manoeuvre by raising reserves. Not surprisingly these measures almost certainly slowed down the rate of labour absorption in the formal sector. However, as the authors argue, the form which a weak demand for labour can take in India cannot be easily predicted. It is perhaps least likely to emerge as open unemployment. However, because of segmentation and associated rigidities in the labour market it does not follow that weak demand for labour will eventually and necessarily impinge on those in the frailest position.

After the period of stabilization the government hopes for a period of positive adjustment. While this might be expected to occur because the government demonstrated its willingness to correct earlier imbalances it should also be helped by other features. These include the government's promise to work towards a low and stable budget deficit, and a number of changes in the rules concerning industrial protection. Much of the latter is to be welcomed but the authors point to certain risks partly inherent in a reduction in public expenditure on infrastructure. They also fear an increased concentration of ownership, the expanded use of labour displacing technology and the neglect of backward regions. They also see no scope for raising prices of capital goods relative to wage rates since the second can go no lower and the first pay high import tariffs. And if large scale industry does prosper it may be at the expense of the small scale sector, which could certainly be given greater assistance.

Much of the authors' criticism, however, is reserved for government fiscal policy and targets. A major comment is that the announced target for the budget deficit is being met by expenditure cuts rather than by expanding the tax base and the effectiveness of tax collection. There certainly appears considerable scope for the latter. Secondly, there is a fear that central government austerity is being passed on, in an uncoordinated way via reduced transfers, to the state governments. The federal aspect of fiscal targeting is being neglected.

Finally, the authors show how India's anti-poverty programmes depend on central government financing and suggest ways in which the coverage of these programmes can be improved.

In their comments the authors are asking for a comprehensive approach to structural reform. The latter should not just affect formal sector industry but should condition large parts of public administration. Similarly, compensatory measures to assist those negatively affected should not be limited to the operation of the national renewal fund but should include better financed and better executed poverty redressal programmes.

Eddy Lee
Chief
Employment Strategies and Policies Branch

Contents

Page

Foreword

Adjustment, employment and equity in India 1

1. **Introduction** 1

2. **Assessment of adjustment in 1991-94** 4

3. **Major characteristics of the Indian labour market** 7

4. **The impact of stabilization in 1991-94 on the labour market** 10

5. **Adjustment and employment: Certain critical issues** 11
   Implications for growth 11
   Centre-state issues 16
   Industrial and related labour market policies 17

6. **A social safety net** 18

7. **Equity during adjustment** 21

Tables 1-10 23-30

Bibliography 31

Adjustment, employment and equity in India*

1. Introduction [1]

India's structural adjustment policies were initiated in 1991. In the first section of the paper we deal with the stabilisation phase during 1991-94, covering the background to the reforms, the adjustment agenda and its implementation during 1991-94. The second section describes the major characteristics of India's labour market. In its light, the third section provides an assessment of the impact of stabilisation on employment and unemployment in 1991-94. Certain critical issues relating to adjustment and employment are the subject of the fourth section. Pro-active labour policies that would appear to be necessary and desirable are discussed in the fifth section. The sixth section is on equity during adjustment.

India's structural adjustment policies are relatively recent and represent a sharp acceleration of market, and outward oriented economic policies pursued in the 1980s rather than a sudden reversal of any previous dirigiste regime. Moreover the reforms, although proximately induced by the Gulf crisis of 1990-91, were not provoked by serious inflation or an unsustainable external debt burden or continued low growth. However, an assessment is difficult, particularly because the reforms are only about three years old and have so far proceeded at a slow and uneven pace.

India's economic crisis in 1991 occurred at the close of a decade of rather satisfactory economic growth. Annual growth of GDP in the 1980s (at 1980-81 prices) was 5.6 per cent, distinctly higher than the 1950-80 growth rate of around 3.5 per cent. Inflation had been kept in check for the larger part of the eighties; and exports were doing well, in particular during the second half of the decade. However, this seemingly robust performance of the economy masked a number of serious imbalances.

First, between 1980-81 and 1987-88 foodgrain production grew annually at only 1.2 per cent, much below population growth at about 2.2 per cent per annum. It was only in the late 1980s that a run of favourable monsoons improved the trend in foodgrains output. What was of particular concern for the long term prospects for agriculture was the stagnation in capital formation in the sector all through the eighties. [2]

The industrial sector had a growth rate of 6.7 per cent per annum between 1980-81 and 1988-89. The consumer durable goods sub-sector grew at about 12.5 per cent per annum in this period while growth in capital goods and in intermediate goods lagged behind. Other imbalances in industrial growth were also apparent. The factory sector grew in part at the expense of the 'cottage' sector resulting in a significant drop in employment particularly in weaving and crafts. [3] The problem of industrial sickness in the modern small scale industrial sector reached serious proportions by the end of the 1980s. [4] Furthermore, the pattern of industrial growth increased import dependence. There was a sharp increase in imports of

* The authors are grateful to Robert E.B.Lucas and to Peter Richards and his colleagues in the ILO for comments on an earlier version.

[1] Indian fiscal years extend from 1 April to 31 March.

[2] Shetty (1990).

[3] Sen Gupta (1993).

[4] Sandesara (1993).

intermediates and capital goods, largely reflecting import intensity in the consumer and electronic goods sectors. [5] Industrial growth in the private sector was essentially spurred by growth in government consumption expenditures (largely non-developmental) for, despite large fiscal deficits, there was a significant slowing down in the growth of public investments in the eighties. [6]

The tertiary sector grew at 6.3 per cent per annum between 1980-81 and 1988-89 but a major contribution to this came from public administration and defence. The rapid growth in services, in contrast with sluggish performance in commodity producing sectors, fuelled inflation in an economy in which nearly 80 per cent of consumption is still on basic consumption goods; and the growth in public employment steadily added to the wage bill in the budget. [7]

In the absence of an adequate effort at resource mobilisation, the increase in public expenditures resulted in large government dissaving all through the eighties. The government had to borrow not only to finance its capital expenditures but also to cover the current account shortfall. In turn, such borrowing, at increasingly higher interest rates, led to mounting interest payments necessitating further borrowings. The upshot of this was a spiral of large, persistent, and accelerating fiscal deficits. The fiscal deficit which was around 4 per cent of GDP in 1975-76 more than doubled to 8.4 per cent by 1990-91.

The increasing import-intensity in the industrial sector; a sharp increase in defence imports; a growing debt-repayment burden; a declining inflow of remittances; and the inability of export growth to service imports and debt service payments – all these led to large and continuing balance of payments deficits. The current account deficit nearly doubled from 1.4 per cent of GDP in 1980-81 to 2.6 per cent in 1990-91. To cover this the government resorted to large scale external borrowing, including a substantial element from commercial sources on short maturities and high interest rates. There was also increased dependence on high-interest deposits from Indians resident abroad. The external public debt went up sharply from $ 20.6 billion in 1980-81 to $ 69.1 billion in 1990-91 and the debt-servicing ratio from 9.3 per cent to 28.3 per cent of merchandise exports.

The cumulation of these factors throughout the 1980s came to a head in early 1991 when foreign exchange reserves declined to unsustainable levels, with the Gulf War (August 1990 - February 1991) proving to be the proverbial last straw. The war resulted in a sharp increase in the import bill and simultaneously in a loss of exports and remittances. The precipitate fall in foreign exchange reserves resulted in an erosion of international confidence in India and access to international capital markets became exceedingly difficult; there were large scale withdrawals from non-resident deposits with fresh remittances practically drying up. Despite several emergency measures aimed at a drastic compression of imports, foreign currency assets had declined to US $ 1.1 billion at the end of June 1991, barely enough to finance two weeks of imports.

Continued fiscal deficits and the depletion of external reserves combined to accelerate inflation. Double-digit inflation emerged by the end of 1990, paradoxically in the wake of three consecutive good harvests. The spurt in inflation was particularly striking in the case of primary products with the food price index going up by nearly 18 per cent in 1991-92 over the previous year. In particular, the poor and vulnerable sections of the population were hit hard [table 1].

[5] Mani (1991) and Khanna (1992).

[6] Nagaraj (1990).

[7] Bhattacharya and Mitra (1990).

It was in this context that the Congress Government, which assumed office in June 1991, initiated the economic reform process. [8] Its three-pronged approach included (i) a set of emergency measures (ii) a 2-3 year programme of macro-economic stabilisation and (iii) concurrent economic reforms over a wide front aimed at longer term structural adjustment.

Financing from the IMF of the order of US$ 2.3 billion was negotiated in August, 1991 under a stand-by arrangement (over a 20 month period). This loan, which came on top of other withdrawals to tide over the Gulf crisis over the previous year, brought India into the Fund's 'zone of conditionality'. As was to be expected, IMF conditionalities and, more generally, the economic philosophies of the - IMF and the World Bank, on which India depended a great deal for the immediate rescue operation, have greatly influenced the contents of the adjustment agenda.

Following the emergency measures, a medium term programme of stabilisation (which included some long term policy changes as well) was implemented in 1991-94. Trade policy reforms have included the de-regulation of imports and exports, the phased reduction of import tariffs and adjustments in the exchange rate. In July 1991 the rupee was depreciated vis-a-vis the US dollar by 23.3 per cent. In subsequent stages a unified market-determined exchange rate has been introduced for imports and exports and inward and outward remittances. As a result of these changes, the rupee has depreciated between mid 1991 and mid 1994 by 50 per cent in nominal terms vis-a-vis the US dollar and by 59 per cent vis-a-vis the SDR. Industrial policy reforms have related to the removal of entry barriers for new firms and of limits to the growth of existing firms. Deregulation in industrial licensing has been wide ranging. A number of areas of investment hitherto reserved for the public sector (notably power generation, non-fuel minerals, telecommunications and air transport) have been opened up for private investment. Concurrently, other measures have been introduced in order to promote competitiveness and efficiency in the public sector. Equity norms, permissible areas, and procedures relating to direct foreign investment and technology imports have been liberalised; and the door has been opened to foreign portfolio investment in Indian companies. Financial sector reforms - introduced and in preparation - cover banking, insurance, mutual funds and the stock market. [9]

The approach to structural adjustment is based on the diagnosis that pervasive regulation had restricted and distorted the role played by market forces resulting in inefficient allocation and utilisation of scarce resources. This, it was perceived, had led to the loss of international competitiveness on the one hand and to supply bottlenecks on the other resulting in recurring foreign exchange crises, poor industrial growth and inflation. [10] Consequently, the main thrust of the longer term adjustment programme was to (i) change the resource allocation pattern - from the government sector to the private sector and from non-traded goods to traded-goods, particularly exportables (ii) expose the economy to international competition and (iii) provide freer play to market forces through appropriate changes in incentives and

[8] The government was formed under Prime Minister P.V. Narasimha Rao following a period of political instability during 1989-91 when there were two changes of government. The reforms are closely associated in India with Dr. Man Mohan Singh, the Finance Minister and a professional economist.

[9] This brief outline of the 1991-94 measures will be elaborated as necessary in subsequent discussion while discussing their impact.

[10] For a recent forceful critique of regulatory policies see Bhagwati (1993).

institutional reforms. The agenda of the structural adjustment programme is comprehensive. [11] It includes (i) better fiscal management and tax reforms (ii) industrial de-regulation (iii) restructuring of public enterprises and privatisation (iv) incentives to direct foreign investment (v) trade policy reforms including exchange rate adjustments, a liberalised regime for imports of goods and technology, and export de-regulation (vi) financial sector reforms in banking, insurance and capital markets and (vii) easing or removal of legal restrictions on the 'exit' of workers to facilitate labour adjustment and retrenchment and providing a 'safety net' to them in the process.

2. Assessment of adjustment in 1991-94

Macro-economic aggregates indicate that the stabilisation policies of 1991-94 have been reasonably successful. [12] The annual inflation rate, which sharply increased to around 14 per cent in 1991-92, has been brought down to a 8 to 10 per cent range in the subsequent period up to mid-1994. [13] Most strikingly, foreign exchange reserves rose to about US$16 billion in mid-1994 compared to a little over US$1 billion three years earlier.

However, the stabilisation measures have also induced a sharp recession in the economy. Compared to an average annual growth rate of 5.6 per cent during the eighties, GDP (in 1980-81 prices) in 1991-92 grew by only 1.2 per cent. The growth rate improved to 4.0 per cent in 1992-93 and is estimated at about the same level in 1993-94. Poor growth in 1991-92 was partly due to a 2.8 per cent decline in agricultural production on account of unfavourable weather while, with a reasonably good monsoon in 1992-93, agricultural production contributed to the improvement in GDP growth in that year. In 1993-94, there was a marginal decline in agricultural production.

The performance of the industrial sector over those last three years was consistently poor. After a decade of rapid growth, industrial production in 1991-92 registered zero growth. Industrial production increased by 1.8 per cent in 1992-93 and by 1.6 per cent in 1993-94. The recession was particularly acute in manufacturing: its index fell by 1.8 per cent in 1991-92 and increased by only about one per cent in 1992-93 and 1993-94.

There was a very sharp reduction in the very first year of the adjustment process in the fiscal deficit (total expenditures minus total receipts excluding those from borrowings and other liabilities). The fiscal deficit was reduced to 5.9 per cent of GDP in 1991-92 from the level of 8.4 per cent in 1990-91. It was marginally reduced further to 5.6 per cent in 1992-93 but went up to 7.3 per cent in 1993-94. The budget for 1994-95 places the fiscal deficit at 6 per cent but it is likely that it will turn out to be larger. The government's target is to reduce its fiscal deficit to about 3 per cent of GDP by 1996-97.

The principal issues of concern are the sharp initial fiscal contraction in 1991-93 and the manner in which the fiscal adjustment was effected. Table 2 shows that the preponderant reliance has been on expenditure reduction rather than on revenue improvement. Tax revenues as a proportion of GDP were maintained in 1991-93 at around 10.8 per cent mainly

[11] See the Economic Surveys and the Finance Minister's Budget Speeches for 1991-92, 1992-93 and 1993-94 brought out by the Ministry of Finance, Government of India. A comprehensive account of the reform measures implemented so far - and likely to be taken up in the next three years - is given in *Economic Reforms Two Years After and the Task Ahead*, a document brought out by the Finance Ministry in July 1993, (Government of India, 1993a). Also relevant is the Ministry's Discussion Paper on Financial Sector Reform (Government of India, 1993b).

[12] There is a large body of literature evaluating various aspects of the reforms in India. For example: Bajpai (1993); Bhadhuri (1993); Bhagwati (1993); Bhagwati and Srinivasan (1993); Chandrashekhar and Ghosh (1993); EPW Research Foundation (1993); Government of India (1993); Gupta (ed.) (1993); ILO-ARTEP (1992); Nayyar (1993a and 1993b); Paranjape (1991); Rai (1992); C.H.H. Rao (1993); Sandesara (1991); Sen (1992); Sen and Das (1992); Shroff (1993); Singh (1993); Srinivasan (1991).

[13] There are indications, however, that inflation in 1994-95 might exceed 10 per cent.

on account of increased customs revenues consequent on devaluation[14] but the tax-to-GDP ratio has declined in 1993-95 to about 9.5 per cent. Any improvement in non-tax revenues has been marginal during the entire period. On the other hand, both current and capital expenditures of the central government declined between 1990-91 and 1994-95: the former (other than interest payments) from 7.4 per cent in 1990-91 to 5.8 per cent of GDP in 1994-95 and the latter from 3.4 to 2.1 per cent.

From the point of view of longer term development, plan expenditures whether current or capital are the relevant measure. Plan expenditures in the central public sector are either budgetary or through public sector enterprises (PSEs). Table 3 shows the plan expenditures in the central sector and their financing. The table shows that budgetary support for the plan has declined from 3.3 per cent of GDP in 1990-91 to 3.0 per cent in 1994-95 while the contribution of PSEs to the plan is expected to increase from 3.9 per cent of GDP in 1990-91 to 4.6 per cent in 1994-95 largely by an increase in PSE borrowings rather than an increase in their internal resources. In effect, while the central government has contained its use of market borrowing for the budget, it has shifted the resort to increased borrowing to its enterprises. This raises the issue of whether such PSE borrowings will be sustainable in the longer run given their overall poor financial performance and to what extent it will have the effect of crowding-out the availability of credit for the private sector.

From the point of view of protecting the poor, the plan outlays on education, medical and health services, family welfare, housing, and urban development are particularly important. In the social sectors, the predominant portion of plan outlays is incurred by the state governments. Table 4 shows that between 1990-91 and 1993-94 plan outlays in social services declined as a proportion of the total and more or less stagnated in terms of GDP. Given stagnant outlays and increases in staff costs (e.g. salaries of teachers, medical personnel etc.), vital non-salary expenditures (drugs, diet, school aids etc.) tend to be crowded out. Thus, in real terms, fiscal contraction will have a definite adverse impact on the social sectors.

More generally, nearly 42 per cent of overall public sector plan outlays in India are incurred by state governments. The states have the predominant responsibility for development in agriculture, irrigation, industrial infrastructure, roads, power development, and social services. In this context, central transfers to states, the states' own financial situation, and the financial performance of their enterprises, are matters of concern. Table 2 shows that while net transfers from the centre to the states were 6.1 per cent of GDP in 1990-91, they declined to 5.5 per cent in 1993-94 and are expected to fall to 4.6 per cent in 1994-95. This will inevitably mean a significant reduction in real terms in development spending

This overview of fiscal contraction in 1991-94 shows that, while significant (especially in 1991-93), it has been achieved almost wholly through expenditure curtailment without any improvement at all in revenue mobilisation. The states have been subject to reductions in net central transfers and this trend is likely to be accentuated as the centre proceeds further with fiscal consolidation. Given the poor financial situation, especially of state electricity boards, and only marginal increases in allocations for infrastructure in the central public sector, fiscal contraction is likely to have a serious impact on the availability and efficiency of publicly-provided infrastructure. It will result in a contraction of demand for supplies from the private sector (e.g. cement for irrigation and buildings, electrical equipment and cables for power development, transport equipment etc.). A number of studies have furthermore underlined the

[14] Between 1990-91 and 1992-93 customs revenues increased by 24 per cent despite reductions in import tariffs and the c.i.f. dollar value of imports.

high degree of complementarity in the Indian economy between the public and private sectors and the extent to which investments in the former 'crowds-in' rather than 'crowds-out' investment in the latter. [15]

Tight credit and monetary policies pursued as part of the stabilization phase have delayed any response. The minimum lending rate of commercial banks – most of which are in the public sector – was raised from 16 per cent in September 1990 to 20 per cent by October 1991. The term-lending institutions also raised their lending rates to 17 to 19 per cent. Subsequently, the maximum lending rates of commercial banks were reduced in stages to 15 per cent by September 1993. Even so interest rates in India remain high. High rates and credit compression affect the small scale sector more severely than large industries and businesses which can pass the burden of credit problems on to their suppliers. The second census of the modern small industrial units (1987-88) found that nearly 52 per cent of the responding units were closed, with the proportion likely to be much higher among those that did not respond. Nearly 35 per cent of the closed units had been shut down because of 'financial problems'. [16]

The financial sector reforms introduced so far – viz., introduction of new accounting and prudential norms related to income recognition, provision for bad debts, and capital adequacy in line with international standards – are other contributory factors in credit contraction.

Import, tariff and exchange rate policies followed during the stabilization phase also contributed to industrial recession. The severe import compression in early 1991 was a major factor behind the recession in 1991-92. The devaluation that followed in mid 1991 and the subsequent de facto depreciation of the rupee through the unified exchange rate system have increased manufacturing costs. Liberalisation of imports combined with distortions in the tariff structure have led to increases in certain categories of industrial imports at the expense of domestic production. The capital goods sector is a case in point. Until the budget of 1994-95, the basic customs duty on capital goods was 35 per cent, while the duty on components ranged from 25 to 85 per cent and on steel and non-ferrous metals (viz., basic raw materials) was in the range of 50 to 75 per cent. [17] This resulted in increased imports of both new and second-hand capital equipment. Aggregate imports in 1991-94, however, were sluggish. After a very sharp fall in imports between 1990-91 and 1991-92 by about 27 per cent in dollar terms there was a modest increase – by about 13 per cent – in 1992-93 over the previous year. Imports in 1993-94 increased by only 4 per cent over 1992-93.

Export performance was very poor in the first two years of economic reforms. 1991-92 saw a decline of 1.4 per cent in the dollar value of exports and growth was only 3.1 per cent in 1992-93. A number of factors contributed to depress export growth in 1991-93: recession and protectionism in importing countries; the collapse of India's trade with the former Soviet Union and Eastern Europe; and domestic disruptions to production. Export growth, however, picked up in 1993-94 to about 20 per cent in dollar terms over the previous year largely due to a sharp increase in agricultural and plantation exports which have responded readily to changes in the exchange rate.

[15] See, e.g. Ahluwalia (1985); Patnaik and Rao (1977); Raipuria and Mehta (1991); Srinivasan and Narayana (1977); and Taylor (1988).

[16] Sandesara (1993).

[17] In the 1994-95 budget the customs duties on capital goods was reduced to 25 per cent, on components to 25 per cent,and on metals to 50 per cent.

3. Major characteristics of the Indian labour market

India's labour market is heterogeneous and segmented. The adjustment process is thus likely to have a varied impact on its different segments. This section summarises the salient features of the labour market from the point of view of the impact of adjustment, recognising that its nature and characteristics have important implications for employment – not only on its aggregate level but also on its nature and composition. [18]

A striking feature of the composition of the work-force in India is that about two-thirds of it is counted as in the primary sector. Although the share of agriculture in GDP has declined significantly from 41 per cent in 1965 to 29 per cent in 1990, the share of the workforce in the sector has not seen any commensurate decline: it has decreased from 73 per cent in 1965 to only about 67 per cent in 1991 (according to the 1991 census). [19]

Another striking characteristic of the workforce is that only a small proportion – about 15 per cent – is employed in regular salaried or wage employment. As might be expected, this proportion is much higher in urban areas (40 per cent) compared to rural (just about 8 per cent) and among males (19 per cent) compared to females (7 per cent); it is particularly low among rural female workers (about 4 per cent). The obverse of this is the preponderance of self-employed and of casual workers in the work-force; the former accounts for nearly 56 per cent and the latter for about 30 per cent of the work-force. The proportion of these two categories of workers is higher in rural areas and among female workers.

The 'organised sector' of employment, as it is known in India, comprises all those who are employed in government, local authorities, public sector enterprises, quasi-government bodies, in the factory sector of manufacturing enterprises and in mining, trade and other sectors in establishments to which statutory labour laws apply. In other words, broadly speaking, legislation relating to conditions of work, wages and social security are only available, even nominally, to those employed in the organised sector. In practice, effective access to such legislated entitlements is seriously constrained even within the organised sector. [20] Organised sector employment in the economy – at about 27 million workers – accounts for just about 8 per cent of the work-force or is only about half of regular employment. Of this, employment in the public sector (as on 31st March, 1991) was about 19.3 million; and that in the private sector non-agricultural establishments employing 10 or more persons was 7.7 million. The public sector thus accounts for about 70 per cent of all employment in the organised sector.

The usual status estimate – which captures long-term or 'open' unemployment – places the unemployment rate for the whole economy at about 3.9 per cent in 1987-88 [table 6]. [21] The adjusted usual status concept – which brings within the ambit of 'worker' a person engaged in some subsidiary work – gives a lower unemployment rate of 2.8 per cent. The rate of unemployment in India is accordingly not, prima facie, high if only 'open' or chronic unemployment is considered.

[18] In studying these issues we have mostly relied on the data provided by the quinquennial surveys on employment and unemployment conducted by the National Sample Survey Organisation (NSSO). However, data on employment in the organized sector are from established surveys.

[19] This proportion is based on principal occupation. In actual fact, cultivators and agricultural workers may also derive incomes from trade, transport, construction, public works and a variety of other non-agricultural activities. There is evidence that such diversification of work opportunities has increased in the last decade. A.Vaidyanathan (1994)

[20] The constraints on effective access to social security are discussed later in this paper.

[21] In the usual status approach a person is considered to be employed if he/she is engaged in gainful activity for the larger part of the reference period of one year preceding the data of survey. A person who pursued some gainful activity although in a subsidiary capacity is also considered employed in the adjusted usual status approach.

A considerable proportion of those who are usually employed – for a larger part of the reference period of a year – are, in fact, not regularly or continuously engaged in work and hence might be either seeking work or could have dropped out of the labour force for a part of the year. This phenomenon of underemployment or intermittent employment may be captured by shortening the reference period to a week in the current weekly status criterion. In the current daily status criterion, the activity status is more closely reckoned for each day over a reference period of one week. The unemployment rate in 1987-88 for the country as a whole was 4.8 per cent according to the current weekly status approach and 6.1 per cent under the current daily status approach. These measures comprehensively capture the high degree of unemployment (including underemployment) in the Indian labour market. In absolute magnitude, the daily status estimate indicates unemployment of about 20 million person years. The extent of underemployment is much higher among casual labourers compared to the self-employed or the regularly employed, and in the agricultural compared to the non-agricultural sector.

There is a whole variety of rigidities in the Indian labour market. There are distinct segments in the market, each with its own entry and operating conditions. There are major socio-economic constraints on entry into different sectors of the market, on skill-acquisition and skill-utilisation, and on spatial and sectoral mobility. In addition to poverty, factors such as caste, gender, language, various forms of tying-in of labour, distance, and transaction costs play a major role in constraining labour mobility. The nature and strength of these constraints also vary across different social groups.[22] There is accordingly a great deal of variation in the characteristics of employment and unemployment in India across space (states, regions, rural-urban), gender, age-group, poverty levels, and skill levels.

The striking feature of variations in employment/ unemployment by monthly per capita expenditure (MPCE) classes is that the rate of open or chronic unemployment – as given by the adjusted usual status estimates – for the poorer sections of the population is not higher than for the rest (tables 8a and 8b). This rate in the rural areas is actually higher for the top-MPCE size-classes. In the urban areas the poorest – i.e. those in the lowest MPCE size-classes – have one of the lowest adjusted usual status unemployment rates. The picture is very different under the more inclusive current daily status approach. Here, there is a clear positive relationship between poverty levels and unemployment. These two tables taken together indicate that although poverty is not associated with higher levels of open unemployment, it has a strong association with underemployment.

There is also a clear relationship between poverty and the quality of work. Lower income levels are associated with higher levels of casualisation and reduced access to regular employment. They are also reflected in higher levels of 'feminisation' of the labour force: the sex-ratio (i.e., number of females to thousand males) for workers is distinctly higher among the poor; while male workforce participation tends to decline at lower income levels, female work participation tends to increase.

Unemployment rates (usual status) for youth – i.e., population in the age-group 15-29 –are much higher than for the rest of the population (table 9). This is particularly the case in urban areas. Youth, who account for about 26 (rural) to 29 (urban) per cent in the population account for as much as 73 to 87 per cent of the unemployed (of the 'open', chronic type) in rural and urban areas respectively. Thus the problem of unemployment of the open, chronic type is very largely a problem of youth unemployment and of initial job search.

[22] There is a considerable body of literature on the segmented nature of the labour market in India. For example: Harriss (1989); Harriss, Kannan and Rodgers (1990) and Rodgers (1993).

Of serious concern is the declining rate of employment generation in the economy in the eighties. In the adjusted usual status sense the work-force grew at an annual rate of 2.2 per cent between 1977-78 and 1983 but there was a sharp decline to 1.6 per cent between 1983 to 1987-88, partly because 1987-88 was a drought year.[23] The decline has occurred in all sectors, except in mining and construction [table 7]. The decline was quite sharp – from 3.8 per cent to 2.1 per cent – in manufacturing. In services the rate of employment generation declined from 4.7 per cent to 2.5 per cent. The eighties as a whole also witnessed a low rate of employment generation in the organised sector, despite rapid output growth in manufacturing. Between 1981 and 1991, employment in the public sector grew by 2.2 per cent per annum, while employment growth in the organised private sector was only 0.1 per cent. Employment in organised manufacturing activities in the private sector in fact declined at 0.6 per cent per annum over the decade.

The slow growth of employment in the organised sector has been attributed in part to the 'excessively protective' labour legislation which makes it difficult to retrench a worker who has been employed for more than 240 days in the organised sector. It has been argued that consequently entrepreneurs prefer to invest in capital intensive plant and equipment and that the growing power of the unions and rising industrial wages in the eighties have strengthened this tendency.[24] This view has, however, been contested on several grounds. First, employers are not always constrained by labour legislation and often manage to circumvent it through splitting activities and sub-contracting, hiring workers on a daily basis as 'casual labour', and similar expedients.[25] Secondly, the evidence, if anything, points to a declining bargaining power of the unions in the eighties.[26] Third, the increase in real wages in most organised sector industries during the eighties was not higher than the growth rate in real per capita GDP.[27] On the other hand, a number of other factors have been put forward more persuasively to explain the deceleration in the growth of organised employment:[28] (i) increased capital to labour ratios in a number of industries, along with a changing composition of demand and output in favour of capital intensive industries (e.g. in chemical and petroleum based industries) (ii) an adjustment to the 'overhang' of employment built up during the seventies when employment in manufacturing grew at 3.9 per cent per annum while growth in value added was only 2.6 per cent per annum; and (iii) adjustments in the form of more intensive use of the existing labour force along with contracting out of labour-intensive services and the farming out of production to the unorganised industrial sector.

The growth of employment in the eighties in the unorganised private sector was much higher, at 2.6 per cent per annum. The tertiary sector, construction in particular, contributed to these higher rates of growth. However, employment growth in the unorganised sector had consequences for the quality of employment by increasing the casualisation and informalisation of the work-force. The percentage of casual workers in the total work-force increased from 27.5 in 1977-78 to 29.4 in 1987-88, especially in rural areas where the corresponding percentage rose from 29.7 in 1977-78 to 32.9 in 1987-88.

[23] The drought in 1987-88 is only a part of the explanation for this: the 1983 NSS survey, conducted during the calendar year (January-December), also coincided, in part, with the drought year of 1982-83.

[24] Ahluwalia (1991); Lucas (1988); and Visaria and Minhas (1991).

[25] Mathur (1992).

[26] Datt (1993); Nagaraj (1993).

[27] Jose (1992); Nagaraj (1993).

[28] Nagaraj (1993).

The rate of unemployment (adjusted usual status) declined from 2.5 per cent in 1977-78 to 1.8 per cent in 1983 and thereafter increased sharply to 2.8 per cent in 1987-88. The number of the unemployed, as per this estimate, was 6.9 million in 1977-78, 5.8 million in 1983 and 9.3 million in 1987-88. The data also suggest that the loss in more continuous employment was reflected in a growth in irregular or intermittent employment i.e. essentially a downward shift from employment to underemployment. In contrast to the increase in the 'open' unemployment rate, the current daily status estimates of unemployment showed a *decline* between 1983 and 1987-88 in the rural areas: from 7.5 to 4.6 for rural males and from 9.0 to 6.7 for rural females. In the urban areas the rate declined marginally from 9.2 to 8.8 in the case of males while there was an increase from 11.0 to 12.0 in the case of females.

4. The impact of stabilization in 1991-94 on the labour market

What is the likely impact of the new economic policies on the labour market? It is not easy to answer this broad question in any reasonably definitive manner because data on the labour market in the nineties will only become available several years later. All that can be attempted is to outline the broad magnitude of the likely impact of the stabilisation phase on aggregate employment and offer some informed speculation on the way the adjustment measures are likely to be transmitted to the labour market. It will be even more hazardous to speculate counter-factually on what might have happened in the absence of adjustment.

Attempts have been made to quantify the impact on aggregate levels of employment of the recessionary conditions induced by the stabilisation phase of the reforms in 1991-94 based on assumptions relating to GDP growth and to employment elasticities to growth. The alternative estimates are summarised below.

Mundle (1992) has estimated the volume of unemployment under a 'base scenario' constructed on the basis of the observed rate of growth of output and trend extrapolation up to 1993-94. His estimates for the unemployed (usual status basis) is 13 million in 1991-92, 14 million in 1992-93, and 15 million in 1993-94. Mundle assumes the initial backlog of unemployment in 1990-91 to be 11 million. On this basis, the additions to the backlog (if the trend rate of growth had continued in 1991-94) implicit in his estimates, are: 2 million in 1991-92, 3 million in 1992-93, and 4 million in 1993-94.

Bhattacharya and Mitra (1993) have made a projection of *additional* unemployment (i.e., additional to the backlog of unemployment in 1990-91 prior to the reforms) using actual sectoral growth rates in 1991-92 and 1992-93 and sectoral employment elasticities (derived from the Censuses of 1981 and 1991). Their estimates for *additional* unemployment are 7 million in 1991-92 and 6.2 million in 1992-93. If the growth rate of GDP in 1993-94 is assumed to be 4 per cent, the additional unemployment in this year will be about 8 million.

Since Mundle's estimates give a measure of incremental unemployment that would have occurred given the trend growth rate (base scenario) and that of Bhattacharya and Mitra of incremental unemployment on the basis of the actual recessionary growth rates experienced in 1991-94, the difference between the two suggests a broad magnitude of the impact of the recession. By 1993-94, this was an addition to the unemployed of 4 million (8 million minus 4 million) amounting to as much as twice the addition (4 million) that could have been expected if trends had continued. In other words, the *specific* impact of the recession in 1991-94 on unemployment has been very significant.

Mundle's estimate of the backlog in 1990-91 of 11 million for the unemployed is underpitched when compared with the official Planning Commission estimate of 13 million

as on 1 April 1990.[29] Superimposing the Bhattacharya and Mitra estimate of incremental unemployment on the Planning Commission's estimate, adjusted by an addition of 2 million during 1990-91, the backlog of unemployment at the beginning of 1994-95, may be of the order of 23 million or 7.2 per cent of the estimated labour force in 1993-94.

The estimates of unemployment discussed above are based on the usual status concept and accordingly relate to open or 'chronic' unemployment. The elasticities used in deriving these estimates should be taken as indicating the dimensions of the likely impact of slow growth on unemployment rather than the actual *form* in which unemployment will manifest itself. Given the characteristics of the Indian labour market, unemployment resulting from excess labour supply can take a combination of forms: (a) long duration open unemployment (b) a shift from regular to casual or self employment (c) spreading-out of casual and self employment. These are likely to be accompanied, as adjustment proceeds, by important changes in sectoral composition, in employment elasticities, regional distribution of employment and unemployment, female employment, skill levels of the employed and the age composition of the work force. For instance, expenditure switching from the organised industrial sector to more labour-intensive traditional export sectors (e.g. gems and jewellery, garments, leather) may improve the amount of employment in person-days but, at the same time, result in greater casualisation, feminisation and deskilling of the work-force.[30] This is likely since traditional export oriented units tend to prefer female labour: semi-skilled, willing to accept lower wages, and non-unionised. Typically, such labour has little job assurance or social security and has a high turn-over.[31] Similarly, the switch from non-tradables to tradables will result in a loss of employment in construction and transport, two sectors which have distinctly contributed to employment growth in the eighties for the semi-skilled and unskilled, especially in rural areas. Differences in skill requirements, wage levels, and in location between the contracting and expanding sectors of employment in combination with the rigidities in the labour market could result in significant shifts in the rural-urban and regional patterns of employment. While a shift to labour intensive export industries could improve the elasticity of employment, the thrust for higher productivity (desirable in itself), aided by freer imports of labour-saving technology and capital goods will slow down labour absorption, particularly in the less-skilled categories. Added to these will be the impact of possible retrenchment arising from closure, restructuring, and privatisation of public sector enterprises and the proposed easing of constraints on labour adjustment in the private sector (the 'exit' policy). To the extent that these policies are implemented they will have a significant impact on employment in the organised sector which, as earlier noted, is already at a very low level in India, at only about 8 per cent of the work-force.

5. Adjustment and employment: Certain critical issues

Implications for growth

The effects of the longer term phase of structural adjustment on employment depend on a number of factors which are yet to unfold. Especially these are (a) the extent, pace, and sequencing of the reforms (b) the likely response to the reforms in the domestic economy and from external agents (c) developments in the international environment and within India which are beyond the control of the government. This section draws attention *selectively* to a

[29] Planning Commission (1990).

[30] Horton, Kanbur and Majumdar (1991) for similar experiences in other developing countries.

[31] Deshpande and Deshpande (1992).

number of areas which can be expected to have a critical bearing on the success or otherwise of the reforms.

The logic of the adjustment process is that short-term losses to growth and employment during the stabilisation phase will be overcome in the subsequent phases of long term adjustment. The validity of this will mainly depend on: (i) the level and nature of sustained growth in the foreseeable future and (ii) the feasibility, given the specific nature of the economy, of achieving such growth given the policy measures adopted and envisaged.

It is clear that it will require a significantly faster growth for unemployment to ease in the medium-term. Assuming that the work-force keeps growing at the same rate as in 1981-91 (viz. 2.3 per cent per annum), employment needs to grow at 3 per cent per annum over the next ten years - from 1993-94 to 2003-04 - if full-employment is to be achieved by the end of the period. [32] The 3 per cent growth rate for employment translates to a growth rate of 6.7 per cent per annum for the economy assuming that employment elasticity in the economy remains at the same level during this period as in the eighties (viz., 0.45). If the employment elasticity drops to 0.34 - which was the experience between 1983 and 1987-88 - the required growth rate for achieving full employment will have to be as high as 8.8 per cent per annum. Less ambitiously, if unemployment at the end of the decade, i.e., in 2003-04, is allowed to continue at the same level as at the beginning of the reform process - i.e., around 11 million - the required growth rate for absorbing additions to the labour force in the decade will be around 2.7 per cent per annum. This translates to an annual GDP growth rate of 5.9 per cent assuming an employment elasticity of 0.45 and to 7.8 per cent if the employment elasticity were to drop to 0.34. To summarise, if full employment is to be achieved by 2003-04, GDP growth will need to be in the 6.7 to 8.8 per cent (or roundly 7 to 9 per cent) range. Even on the basis of the more restrictive assumption - i.e. containing unemployment at the same level as the pre-reform (1991) backlog - GDP will need to grow in the range of 5.9 to 7.8 per cent (or roundly 6 to 8 per cent) to absorb new entrants to the labour force.

In the light of these estimates, it is clear that a meaningful impact on employment can be achieved only if GDP growth can be pushed up to, and sustained at, a level of around 7 per cent per annum. The magnitude of the effort required will be apparent from the fact that this is double the long term growth rate recorded by the economy viz., 3.5 per cent. It is also distinctly higher than the growth rate in the eighties (5.6 per cent), the same as the Eighth Plan (1992-97) target.

Correspondingly, sectoral growth rates in the economy will have to be considerably higher than their long term performance. The primary sector grew at around 3.7 per cent per annum during the eighties compared to 1.6 per cent in the seventies. This was largely because of an unprecedented run of favourable monsoons. Even assuming that the primary sector grows at 4 per cent per annum over the next ten years and that the secondary and tertiary sectors grow at roughly equal rates (as in the eighties), these two sectors, given their relative weights in GDP, will each have to grow at around 8.5 per cent per annum, if the economy as a whole is to grow at around 7 per cent. These rates again are significantly higher than past growth rates: the secondary sector grew at 4.0 per cent in the seventies and

[32] Assuming the employment level in the economy in 1993-94 to be 291 million and the magnitude of unemployment in that year to be around 22 million, the size of the labour force would be of the order of 313 million. If we assume that the labour force grows at the rate of 2.3 per cent per annum, at the end of 10 years -- i.e., in 2003-4 -- the size of the labour force will be 393 million. Employment will have to grow at around 3 per cent per annum if there has to be full-employment by 2003-4. The above projections are made on the basis of 1991 census data. Even if we use the NSSO estimates - which give higher levels of labour force and employment projections for 1993-94 -- the conclusion does not change.

6.9 per cent in the eighties; the corresponding growth rates for the tertiary sector were 4.3 per cent and 6.3 per cent.

The structural adjustment policies articulated so far are primarily addressed to stimulating growth in private organised industry. However, given the preponderance of employment in agriculture and the low employment intensity of industry, it will be crucial to give equal emphasis to agriculture. Agriculture remains the key sector in India for many reasons: employment; equity, in as much as 70 per cent of the population is rural; creation of a strong home market for industrial goods; supply of raw materials and inputs to industry; regional balance; and the strengthening of rural-urban linkages.[33] Secondly, just as agriculture and industry are complementary, so also are the public and private sectors in industry. Public investment, and the resources to enable it, especially in infrastructure – energy, transport and communications, certain basic industries and mining – will have to be sustained and the efficiency of such investments will need to be considerably improved. These two issues have been relatively neglected in the new policies and we begin with them.

In the agricultural sector the new economic policies have concentrated on incentive measures such as increases to the procurement price of foodgrains and on export de-regulation.[34] Equally important but relatively neglected are non-price institutional reforms such as: land reforms; development and utilisation of irrigation; credit; inputs and services; soil and moisture conservation; development of infrastructural facilities for marketing and transport; and a decentralised system of planning and governance with elected local bodies (Panchayat Raj institutions) playing a central role.

Labour absorption per hectare of cropped area, after an initial increase, has been declining in the eighties in the fast growing 'green revolution' areas in India indicating that the limits to the land-augmenting nature of the irrigation-fertiliser-high yielding seed technology have been reached.[35] A further increase in labour absorption in the agricultural sector will depend on the extension of the new technology to lagging regions such as Eastern and Central India and to rainfed regions, which account for roughly two-thirds of the cropped area.

The importance of a more equal distribution of land for both equity and growth deserves to be stressed because it tends to be abandoned as a lost cause. In terms of both design and implementation land reforms in India have been ineffective in reducing the concentration of land ownership. The NSSO data for 1987-88 show that households owning more than 8 hectares of land accounted for 2 per cent of households but owned 24 per cent of land in rural India; at 'the other end of the spectrum, households with no land or less than a hectare of land accounted for 69 per cent of households but owned only 14 per cent of land. Access to land provides food security and enables better utilisation of family labour. It is also necessary for the removal of economic, social and political power from the hands of large landlords, which enables them to reduce wages, increase rents, operate in inter-locked credit markets and exercise diverse forms of extra-economic oppression over the poor. High land concentration is associated with socio-economic backwardness – such as high levels of illiteracy, poverty and various forms of tying-in of labour – acting as a constraint on skill-acquisition and mobility. Accordingly, land reforms are also important for easing labour market rigidities.

The role of the state vis-a-vis the private sector is important in ensuring inter-sectoral balance. The sharp spending cuts during the stabilisation phase has led to stagnant investment

[33] For details Kurian (1990); Bhalla (1987).

[34] Bharadwaj (1994); Rao, J.M. (1994).

[35] See Bhalla (1987).

in public infrastructure. Given the high degree of complementarity between public and private sectors this is bound to dampen private sector investment in the longer term both from the supply and demand perspectives. Low growth in tax receipts, due to tax reductions and inadequate tax collection, can also set off a further round of contraction in capital expenditure and real investment levels. The proposed reductions in customs and excise duties and the proposed financial sector reforms, which inter-alia involve a sharp reduction in the government's access to credit from the banking sector, will particularly exacerbate the problem of budgetary resources.[36] It is doubtful that the counterpart increase in the access of the private sector to investible resources will lead to higher investment in key infrastructure and in investment goods. Private investment in the industrial sector is likely to flow largely into the production of consumer goods given rising levels of income, the skewed nature of income distribution and restrictions on their import.[37] Such consumption-led investment and production can lead to short-run upswings in growth – largely in the nature of import-intensive, low labour-using growth – but will not be sustained.

In such a situation, the nature and quality of fiscal management become key issues. If adequate capital investment, especially in public infrastructure, is to be made while also containing fiscal deficits, it will be clearly necessary to improve revenues. Of the Centre's total revenue receipts, tax revenues account for nearly 80 per cent and non-tax revenues are predominantly interest receipts. The contribution of profits and dividends from public enterprises to total revenues is a negligible one per cent. As far as tax revenues are concerned, the central government at present obtains only about 24 per cent of its gross tax revenues from direct taxes; of this 12 per cent comes from corporate taxes and only 11 per cent from personal income taxes. Customs revenues (i.e. import tariffs) contribute 36 per cent and excise duties (domestic trade taxes) 40 per cent. The thrust of the new economic policies is to reduce corporate tax levels in order to provide higher incentives to the corporate sector; to contain, if not reduce, personal income taxes to promote better compliance; to reduce customs duties in the interests of greater globalisation; and to reduce excise duties to stimulate domestic demand. In other words, as far as tax levels are concerned, the new economic policies call for across-the-board reductions.

If tax rates are likely to be lowered, extending the tax base and improving tax compliance are major areas of concern. A careful study of 'black money' (i.e. taxable income not reported for taxation) by the National Institute for Public Finance and Policy (NIPFP) estimated that in 1983 black money amounted in India to about 18 per cent of GDP. Its incidence since then is likely to have increased rather than declined. More recently, the government-appointed tax reforms committee (Chelliah Committee) has pointed out that not more than 30 to 35 per cent of legally taxable incomes in India are being disclosed for personal income taxation.[38] They have estimated that if disclosure of 60 per cent can be enforced and the average effective tax rate improved from the current 16 per cent to 20 per cent, the yield from income tax would go up to as much as 2.5 times its present level. The committee has also made a number of specific recommendations for reaching these norms such as widening the tax base, plugging loopholes, and more effective tax administration. Estimates of evasion in excise duties vary from commodity to commodity; overall, it would appear to be reasonable to assume that evasion amounts to 30 per cent of duty actually

[36] Bank resources are pre-empted by the Government through the Statutory Liquidity Ratio requirement under which the banks had to invest 38.5 per cent of their funds in government securities. This ratio has been lowered after the reforms to 30 per cent and is proposed to be further lowered to 25 per cent over the next three years.

[37] For an elaboration of these issues Patnaik (1994) Rudra (1988); and Sarkar (1993).

[38] Government of India (1991a); p.47.

paid.[39] If even 60 per cent of the excise duties evaded are captured back for the exchequer, excise revenues will increase by 18 per cent. The modest target set by the tax reforms committee for better enforcement of personal income tax, a similar effort in respect of excise duties, plugging tax loopholes in corporate taxes and checking smuggling and corruption in customs revenues can together increase gross tax revenues by nearly a third.

The new economic policies have, however, so far placed little or no emphasis on curbing tax evasion and corruption in tax administration. If compliance continues to be low, if rates can not be increased without endangering incentives, and since fiscal consolidation has to be maintained, the axe has to be wielded on public outlays. While it will fall on both welfare and investment, the latter are likely to be particularly affected since they are lumpy and can be avoided without inviting immediate hardship or social protest. This trend is clearly visible in the manner in which fiscal contraction has been implemented during 1991-95. Reversing the trend through serious and effective measures for tax enforcement is necessary if longer term growth and employment are to be safeguarded.

Taking the centre and states together, domestic trade taxes in the form of excise duties and sales taxes account for as much as 48 per cent of total tax revenues. Such a high dependence on indirect taxation is regressive. Furthermore, commodity taxation at two levels has led to a number of problems such as tax cascading, lack of tax neutrality, evasion, cumbersome procedures, obstacles to inter-state trade and absence of transparency. In this context, the introduction of a consumption based VAT at the national level has been posed as part of the reforms. However, such a reform will require a degree of centre-state cooperation which in present circumstances would appear very difficult to bring about.

Investments in India's public sector enterprises have yielded poor returns with a number of them consistently incurring large losses. PSEs have proved to be a major drain on the exchequer. The operating results for 1992-93 show that the net profit (after depreciation, interest and taxes) of 237 central public sector industrial and commercial undertakings in that year was only Rs.34 billion on a total capital employed of the order of Rs.1399 billion amounting to a return of 2.4 per cent. There were as many as 106 loss-making enterprises, with a total loss of Rs.39.5 billion in that year. A large proportion of the loss-making units were "sick units" (largely in the textile sector) - which had been taken over from private owners in order to protect employment.[40]

As part of the economic reforms, the government has reduced budgetary support to loss-making PSEs. The Sick Industrial Companies Act (SICA) has also been amended to bring PSEs within the jurisdiction of the Board of Industrial and Financial Reconstruction (BIFR) which decides on restructuring and closure of sick units. Forty-six public sector units had been referred to the BIFR by October 1993. In order to tackle the retrenchment or voluntary retirement of employees in PSEs arising from closure or restructuring, the Government have established a National Renewal Fund (NRF) with the following objectives: (i) compensation to employees retrenched because of the closure or restructuring of industrial units; (ii) assistance for retraining and redeployment of surplus employees surplus as a result of closure, restructuring, modernisation and technological upgrading; and (iii) employment generation schemes, particularly in the unorganised sector. The funding for the NRF is from budgetary allocations, sales of equity in PSEs and from external aid. Its operations are

[39] An NIPFP study *Evasion of Excise duties in India* (1986) estimates that as a percentage of actual duty paid, evasion in excise duties accounted for about 20 per cent in copper and 41 per cent in cotton textile fabrics. Gupta (1992) estimates evasion in excise duties at 66.7 per cent of actual duty paid.

[40] Economic Survey 1993-94. It has been pointed out that if the sick units are excluded, the difference between the returns to capital in the public and private sectors gets considerably narrowed.

initially confined to the public sector. About 60,000 workers have so far opted for voluntary retirement under the scheme.

Privatisation is the other important measure relied on to reduce losses and improve efficiency in the public sector. Neither outright sale of ownership nor entrustment of management to the private sector has been preferred or found to be feasible. The two options resorted to are (a) permitting the entry of the private sector into sectors hitherto reserved for public investment. Major examples so far are power generation, air transport and telecommunications and (b) disinvestment of the government's shareholding (up to 49 per cent) in selected PSEs. Both courses have been problematic. The first has resulted in cream-skimming: for instance, the entry of a number of private airlines in the profitable routes has increased the losses of Indian Airlines. Similarly, the relatively high returns assured to power generation in the private sector are bound to considerably affect the finances of state electricity boards, who will be the bulk purchasers.

The second option of disinvestment has been vigorously pursued. About Rs. 50 billion has been raised through sales up to end 1993-94 and the budget for 1994-95 provides for further disinvestment to the tune of Rs.40 billion. This has been criticized on several grounds. As only the high-yielding shares of profitable PSEs can find a market, the government has been accused of selling 'the family silver' keeping only the non-saleable portfolio. Secondly, where the loss in dividends in such sales is higher than the interest rates paid on the government's borrowing, it would have made more sense to borrow the required amounts rather than realise them from the sale of equity. Thirdly, the sale of shares is not an effective form of introducing market discipline since the government's administrative control remains intact.

The underlying criticism is that the thrust of the reforms in relation to the public sector amounts to a 'retreat of the State' – through closures, retrenchment, restructuring and privatization – rather than efforts to strengthen the public sector based on a recognition of its role. While admittedly there is need to shrink and streamline PSEs in India, there is also a case for continued investment in infrastructure and basic capital and intermediate goods in which private investment may not be forthcoming.[41] Equally, it is clear that whatever eventually remains in the public sector will need to function efficiently and yield acceptable rates of return.

Centre-state issues

The federal dimension has been neglected so far in the implementation of the new economic policies. Economic and social administration in India is a responsibility not only of the central government but also of 25 state governments with the latter having legislative, administrative, financial and executive responsibilities defined in the constitution. In the Indian fiscal system, the finances of the centre and the state governments are highly integrated and inter-dependent. About 30 per cent of the centre's gross receipts are transferred to the states and account for about 40 per cent of the latter's receipts. Accordingly, fiscal contraction cannot be achieved without the active cooperation of the states. By the same token, if fiscal contraction on the part of the centre is unduly transmitted to the states through sharply reduced transfers and is not accompanied by improvements in the states' own revenues, the result will be a sharp diminution in welfare and investment at the state level. This can have serious consequences since the states have very large responsibilities both for normal administration and for development. The maintenance of law and order and primary judicial administration are states' responsibilities. Their involvement in economic and social

[41] Bagchi (1994).

development is extensive with responsibilities for agriculture and allied fields (fisheries, animal husbandry, dairying, forests), irrigation, power development, roads, education, health, drinking water supply and urban development. Overall, the states have the responsibility for implementing 50 to 60 per cent of the plan outlay. Specifically, in relation to the adjustment process, the states need to cooperate with the centre in putting through the reform programme in fiscal consolidation, tax reform, industry, power development, agriculture and the social sectors.

The new economic policies need a much greater measure of centre-state coordination than hitherto, on both the political and economic planes. Politically, the centre needs to ensure greater stability in the state governments. It is necessary to activate a variety of consultative mechanisms which have not been adequately or appropriately used such as the Planning Commission, National Development Council and the recently constituted Inter-State Council. It is also necessary for the centre, while implementing its economic reforms, to help the states to bear the political and economic costs of adjustment. [42]

Industrial and related labour market policies

Reforms in industrial and foreign trade policies are the centre piece of the structural adjustment process. The thrust of these policies is to move speedily towards a market-oriented and competitive regime. The measures, introduced or proposed, include: removal or loosening of regulations on investors relating to sectoral entry, products, capacity, diversification and expansion; removal of constraints on the limits to growth of conglomerates; much wider scope for imports of foreign technology and for direct foreign investment; liberalisation of imports of capital goods and other industrial imports along with reductions in import duties; financial sector reforms to provide greater access for private industry to domestic bank credit and foreign capital; and labour market reforms to permit retrenchment and closures.

It is too early to assess the impact of these measures on investment or output. There is evidence, however, of an improvement in the climate for industrial investment, particularly in 1993-94. This is indicated by the data relating to sanctions and disbursements of long term credit by financial institutions, approvals and flows of direct foreign investment and inflows of portfolio capital.

India's industrial policies and procedures have in the past suffered from excessive controls. In this context, deregulation is to be welcomed in principle. However, industrial controls sought a number of objectives: balanced regional development, deconcentration of ownership, technological self-reliance, curtailing unessential imports and support to domestic manufacturing capacities. The criticism has been that the regulatory system, instead of succeeding in achieving these objectives, produced several distortions such as poor growth, high costs, uncompetitive products and rent-seeking. It is sufficient here to point out that the *objectives* of industrial regulation have not lost their validity. Can the new economic reforms in their present form be expected to promote those objectives. Specifically, it has been argued that speedy and across-the-board deregulation is likely to concentrate industrial development in the already advanced regions; encourage concentration of ownership, thus limiting rather than increasing competition; and that an undiscriminating 'open door' to foreign technology and capital is likely to entail high foreign exchange outflows, investment in consumer goods for the affluent, and labour-displacing technology.

A major concern at the micro-economic level relates to 'sickness' in the industrial sector, especially in small scale industries. A 'sick' unit is one which has completely eroded

[42] The interface of the Centre and States in the reform process has been discussed in detail in Guhan (1993a).

its equity base through cumulative losses, while a unit which has eroded half its equity base is referred to as a 'weak'. At the end of March 1992, there were 245,575 sick units in the small scale industry (SSI) sector owing the banks Rs. 31 billion; the number of sick units in the non-SSI sector was 1,336 owing banks Rs. 57.9 billion; additionally, there were 813 non-SSI weak units owing banks Rs. 26.5 billion. Of the SSI sick units, 92 per cent were assessed as non-viable and among the non-SSI sick units 42 per cent were non-viable. While no precise estimates of the number of workers in the sick units are available, rough estimates indicate that the closure of non-viable sick and weak units may lead to the retrenchment of about 3 million workers, including about 2 million in the SSI sector. [43]

In such a context, a number of measures are necessary to prevent large scale retrenchment. Technical, marketing, and financial support to the SSI sector is necessary to safeguard potentially viable units from closure. The NRF, with suitable modifications, will need to be extended to the small scale sector. Falls in employment in the SSI sector will be spread over a large number of units and over time, and hence largely 'invisible'. Accordingly, appropriate institutional mechanisms will be necessary for the generation and dissemination of information regarding points where loss of employment takes place and those where new jobs are created; so also, training institutions are needed to match the supply and demand for skills. So far there have been no concrete moves in these directions.

Another major issue arises from the fact that while entry restrictions for industrial investment have been relaxed, 'exit' remains restricted because of certain provisions in labour laws. Under the Industrial Disputes (ID) Act (as amended in 1984), retrenchment, lay-off or closures in a factory employing 100 or more workers in industries other than those directly owned or controlled by the centre need prior permission from the local state government. These have tended to delay or deny approval. As part of the reform agenda, it is proposed to amend the ID Act to remove these barriers to exit. These proposals have so far been resisted by both organized labour and state governments. If political acceptability is to be gained for the 'exit policy', it is necessary to postpone its enforcement until overall industrial growth picks up and to soften its impact through a variety of measures. These could include: (i) mechanisms for information generation and dissemination to help match the demand for, and supply of, skilled labour. The national employment service has proved to be grossly inadequate for information generation or dissemination, or for placement. The NSS data for 1987-88 show that just about 32 per cent of the unemployed were registered; and of those as much as 73 per cent were either already employed or outside the labour force (e.g. students). As for placement, employment exchanges in India notify vacancies in certain categories of employment in the government sector alone and do not cover the private sector. A radical restructuring of notification and placement services deserves high priority; (ii) manpower planning to match vacancies in areas in which public sector employment is expected to increase with redundancies in areas where it is likely to shrink. Similarly, incentives will be necessary for the private sector to absorb labour displaced from public sector units or from contracting private sector units; (iii) decentralised, state-level mechanisms for services relating to information, notification, placement and training; (iv) training facilities for skills for which demand is likely to emerge, both in public facilities and in private sector apprenticeship programmes.

6. A social safety net

While higher levels of aggregate employment will depend on sustained and high growth in GDP, other policies can alleviate unemployment arising from transitional factors during

[43] Datt (1993).

adjustment. Four major special employment programmes are being currently implemented in India: (i) The Integrated Rural Development Programme (IRDP), which has been in operation since 1978, seeks to generate self-employment by financing productive assets – such as milk cattle, draught animals and irrigation wells – to the rural poor through a combination of subsidy and bank credit. About 3 to 4 million rural households are annually targeted for benefits under this programme. (ii) Training of Rural Youth for Self-Employment (TRYSEM) which provides training and skill development opportunities to poor rural youth and encourages them, through provision of support systems like credit and marketing facilities, to take up self-employment or wage employment. (iii) The Jawahar Rojgar Yojana (JRY) designed to generate employment for rural unskilled labour on public works which result in durable communal assets and (iv) The Nehru Rojgar Yojana (NRY) for skill upgrading for the urban poor and provision of employment through housing, shelter upgradation, micro-enterprises and the provision of basic amenities.

More than a decade of experience and numerous evaluations have drawn attention to a variety of shortcomings in the IRDP. Principally, they are of four types: [44] Targeting to poor households is weak, partly because of genuine difficulties in income-testing and partly because of administrative inefficiencies, corruption and politicisation. Beneficiaries below the poverty line tend to be close to the line with only a few being the poorest. Incomes that the assets might generate are not always available to service the loans that finance them and, thereafter, for accumulating savings. In many cases they are utilised for current consumption, especially in emergencies such as droughts and sickness or death in the household. Consequently IRDP beneficiaries either fall into a debt trap or are forced to default on repayments. External support services are inadequate for the assets provided to the poor to generate dependable streams of income , e.g. in the case of milk cattle: low cost feed, veterinary services, cattle insurance and marketing arrangements. Altogether, it has been estimated that at the end of the first seven years of the operation of the IRDP (1978-85), only 'about 3 per cent of the poor households in rural India would have been helped to live above poverty, even if for a while only'. [45]

TRYSEM is also beset with similar problems. TRYSEM has often concentrated on schemes which require low skill levels, e.g., sewing machines. However, such schemes face a lack of effective demand. Hence TRYSEM has been able to create employment largely of an intermittent type at low levels of earnings. Moreover, the support systems – like credit and marketing facilities – needed to utilise the skills acquired is neglected. The skill upgrading programmes in urban areas – like the Self-Employment Programme for Urban Poor (SEPUP) – have suffered from similar drawbacks.

Special employment generation programmes for rural unskilled labour, like the JRY, have been in operation nation-wide since 1977. A more intensive earlier version is the Employment Guarantee Scheme (EGS) in operation in Maharashtra since 1972. While rural employment schemes have advantages from the point of view of social security provision, poverty alleviation and rural development, they suffer from a number of drawbacks. [46] First, their coverage is inadequate. Even the Maharashtra EGS has been estimated to meet only 2.5 per cent of unemployment among all rural workers, 3.6 per cent for agricultural workers and about 7 to 8 per cent for the wage-employed in agriculture. Nonetheless its cost is as much as 10 per cent of Maharastra's total developmental expenditure. Secondly, because of the tendency to economise on materials in order to increase the wage content and

[44] See Guhan (1993b).

[45] Rath (1985).

[46] Mahendra Dev (1992).

local political pressures, non-durable rather than more permanent work is usually chosen; in many cases works are abandoned incomplete and new ones started elsewhere; and maintenance is sorely neglected. Also, such assets as are created - irrigation, soil conservation, roads - are likely, given their very nature, to benefit the land-owning and trading non-poor rather than those who have laboured to create them. Thus the indirect benefits that the poor can derive from the assets created are also limited. The scope and impact of the urban counterpart of JRY viz., the Nehru Rojgar Yojana (NRY), are constrained by the fact that there is no lean season of any considerable length during which the poor remain unemployed and hence can be mobilised for public works. Moreover, the type of productive assets which can be generated under these schemes are limited.

Thus the impact of these programmes - in terms of employment generation, poverty alleviation or development of productive assets - is very limited. [47]

Another possibility is the expansion of social security. Social security in India is inadequate and skewed. Formal social security in the sense of entitlements, provided through legislation or directly by the state, is confined to the organised sector of employment. While thus the availability of social security is highly unequal, it is also very uneven within the organised sector itself. Employees in government, public sector enterprises and quasi-public entities are adequately covered by benefits for medical care, loss of earnings during sickness and maternity, and for retirement and widows' benefits. They also enjoy a high level of job security with little risk of retrenchment. Outside of the public sector, legislated measures are available for contingencies such as medical care, sickness, maternity, employment injuries, invalidity, retirement and for survivors. However, the coverage, levels of benefits and effective access are all seriously inadequate. Firstly, maternity and employment injury benefits are in large part employer liabilities and there is considerable evasion on the part of employers in fulfilling their obligations. Medical and sickness benefits (as well as maternity, employment injury and disability benefits) are provided through social insurance with contributions from employers, employees and the government under the Employees State Insurance (ESI) scheme. However its coverage is not adequate either geographically or in terms of the categories of industrial establishments covered. Retirement benefits are mainly in the form of the Employees Provident Fund (EPF). These benefits tend to be meagre largely because of heavy withdrawals for consumption and other contingencies during the working life. Recently, however, the government has proposed to introduce pension benefits for workers in the organised sector. [48]

There is no general unemployment insurance or other relief for unemployment in India. Apart from the unaffordable cost such relief will entail, the contingency of 'unemployment' under Indian conditions is not tractable from the point of view of designing an administratively feasible system. The only unemployment relief that is in principle available, but is very limited, is in the form of retrenchment benefits in the case of closure of industrial establishments. They, however, are subject to serious shortcomings. The National Renewal Fund (NRF) is an attempt to overcome these problems but it is an inadequate response.

Social security provision in India needs major reform on three principal fronts: (i) formal social security in the organised sector needs basic reforms. Scales of benefits need to be upgraded; the coverage of the ESI should be made universal at least within the organised sector and its administration improved; and benefits based on employer liabilities (such as maternity, employment injury, gratuity and retrenchment benefits) should be insured

[47] There is a large body of evaluation literature on these programmes. E.g., Dreze (1990); Mahendra Dev (1992); C.H.H.Rao (1992); Rath (1985); Subbarao, (1985).

[48] Formal social security provisions and their shortcomings are reviewed in Government of India (1984).

so that they cannot be evaded or delayed; (ii) appropriate forms of social security, based on group social insurance, need to be provided to those in regular salaried employment outside the organised sector (who account for about 7 per cent of the work-force); and (iii) social assistance - at least for principal contingencies such as old age, widowhood, disability and maternity – should be provided for households below the poverty line who are self employed or are casually employed, constituting the predominant bulk of the work-force in agriculture, non-agricultural rural employment and the urban informal sector.[49] Such protective measures will also need to be significantly supplemented by promotional measures for employment creation, primary health care, and maternal and child health services. The lack of such a comprehensive and coherent policy for safety nets applicable to the entire labour market is a glaring inadequacy in the government's new economic policies.

7. Equity during adjustment

More comprehensively, the kind of safety nets needed to protect the poor during adjustment will have to include (i) the public distribution system (PDS) (ii) poor-oriented employment and income generation programmes such as the JRY and the IRDP (iii) primary education (iv) primary health care (v) drinking water supply and sanitation in rural areas and urban slums (vi) child nutrition and (vii) maternal and child health services.

The generic tasks involved in strengthening the various programmes in the safety net are clear. They include: (i) protecting outlays for social services in real terms in the first instance and increasing them where appropriate and feasible (ii) re-ordering intra-sectoral priorities (e.g. primary versus higher education, preventive versus curative health services) (iii) reduction in disparities in the provision of basic social services (rural-urban, regional, gender based, and according to income classes) (iv) cost-effective implementation reducing waste and leakage (v) better targeting towards the poor (vi) reasonable cost recovery.

There is considerable scope for prioritising and restructuring safety net programmes and for curbing waste, leakage and corruption. In India the PDS handles about 10 to 15 per cent of foodgrain availability. It is not specifically targeted to the poor and is also largely concentrated in urban centres. Leakages occur at different points in the distribution chain, at the wholesale and retail levels, in transit and through bogus ration cards. Some estimates indicate that such leakage amounts to as much as 35 per cent of the gross amount of grain distributed.[50] Leakages must be curbed. The PDS has to be enlarged and extended to provide access to the poor, particularly in rural areas. And it should be better targeted – towards rural areas, the rural and urban poor, backward regions and in terms of cereals consumed by the poor. These measures are particularly important since the adjustment policies in the agricultural sector – such as the reduction of input and food subsidies and relaxation of restrictions on agricultural exports – are likely to erode the food security system and hurt vulnerable groups.

The restructuring of safety net programmes will have to go along with basic changes in the philosophy and practices of implementation. There is a growing recognition in India that poor-oriented programmes – employment programmes, basic social services, the PDS, social security – are best implemented in a decentralised fashion by local bodies (Panchayat Raj institutions) with local participation and subject to local accountability. This is reflected in a recent constitutional amendment which makes it mandatory to hold regular elections to local bodies and calls upon the states to endow them with adequate resources and

[49] Some States in India, notably Tamil Nadu and Kerala have implemented reasonably satisfactory social assistance packages of this kind. See Guhan (1992).

[50] World Bank (1992).

responsibilities so that their role in welfare and development can be considerably enlarged. Much will, however, depend on the spirit in which the promotional provisions of the amendment are translated into substantive and sustained decentralisation by the states.

The role of the state in the social sectors is crucial for protecting the poor during adjustment. If it is adequately discharged, many longer-term improvements in anti-poverty programmes could result, turning challenge into opportunity. Governments at the centre and in the states have not, however, yet given systematic attention to the restructuring of social programmes as an integral part of reform policy and practice.

Table 1. Inflation rates in India

Year	Percentage change in wholesale price index		Percentage change in consumer price index for:		
	All commodities	Food index	Industrial workers	Urban non-manual employees	Agricultural labourers
1985-86	4.4	2.2	6.5	7.0	5.7
1986-87	5.8	10.2	8.7	7.5	4.1
1987-88	8.2	8.9	9.2	9.6	12.5
1988-89	7.5	8.3	6.8	7.9	11.4
1989-90	7.4	4.7	0.0	6.6	3.9
1990-91	10.3	11.2	11.6	11.0	10.4
1991-92	13.7	17.9	13.5	13.7	21.3
1992-93	10.0	11.1	9.9	10.4	12.3

Note: The inflation rates are calculated on the "annual average basis", and not on a "point-to-point basis".

Source: Economic and Political Weekly, September 18, 1993.

Table 2. Central government budgetary transactions - 1990-95 (Rs. billion)

		1990-91	1991-92	1992-93	1993-94 RE	1994-95 BE
1.	Current expenditure	604.55	665.03	743.75	887.09	989.68
		(11.4)	(10.8)	(10.5)	(11.1)	(10.8)
	of which					
	Interest payments	214.98	265.96	310.35	375.00	460.00
		(4.0)	(4.3)	(4.4)	(4.7)	(5.0)
	Other current expenditures	389.57	399.40	433.40	512.09	529.68
		(7.4)	(6.5)	(6.1)	(6.4)	(5.8)
2.	Capital expenditure	182.15	167.92	177.55	192.04	190.96
		(3.4)	(2.7)	(2.5)	(2.4)	(2.1)
3.	Net transfers to states on current and capital accounts	322.92	358.66	397.86	444.32	426.59
		(6.1)	(5.8)	(5.6)	(5.5)	(4.6)
4.	Total expenditure (1+2+3)	1,109.62	1191.61	1,319.16	1,523.45	1,607.23
		(20.9)	(19.3)	(18.6)	(19.0)	(17.5)
5.	Current receipts	643.15	766.79	868.07	887.15	993.51
		(12.1)	(12.4)	(12.3)	(11.1)	(10.8)
	of which					
	Gross tax revenues	575.13	672.67	745.66	767.17	871.36
		(10.8)	(10.9)	(10.6)	(9.6)	(9.5)
	Non-tax revenues	68.02	94.12	122.41	119.98	122.15
		(1.3)	(1.5)	(1.7)	(1.5)	(1.3)
6.	Capital receipts	20.15	61.57	49.36	50.80	64.57
		(0.4)	(1.0)	(0.7)	(0.6)	(0.7)
7.	Total receipts (5+6)	663.30	828.36	917.43	937.95	1,058.08
		(12.5)	(13.4)	(13.0)	(11.7)	(11.5)
8.	Fiscal deficit (4-7)	446.32	363.25	401.73	585.50	549.15
		(8.4)	(5.9)	(5.6)	(7.3)	(6.0)
9.	Met by:					
(i)	Budgetary deficit	113.47	68.55	123.12	90.59	60.00
		(2.1)	(1.1)	(1.7)	(1.1)	(0.7)
(ii)	Borrowing and other liabilities	332.85	294.70	278.61	494.91	489.15
		(6.3)	(4.8)	(3.9)	(6.2)	(5.3)

Note: Figures in brackets are percentages to GDP
RE: Revised estimates; BE: Budget estimates.

Source: Government of India, Budget Documents.

Table 3. Plan outlays of the central government: 1990-94[1] (Rs. billion)

		1990-91 RE	1991-92 RE	1992-93 RE	1993-94 RE	1994-95 BE
1.	Agriculture and irrigation	15.78	19.52	23.05	26.90	28.98
		(0.3)	(0.3)	(0.4)	(0.4)	(0.3)
2.	Rural development	25.32	23.56	31.09	48.30	60.36
		(0.5)	(0.4)	(0.5)	(0.6)	(0.7)
3.	Social services	36.16	45.65	51.89	64.17	73.81
		(0.7)	(0.7)	(0.8)	(0.8)	(0.8)
4.	Energy	121.53	122.69	165.20	195.65	228.57
		(2.3)	(2.0)	(2.5)	(2.4)	(2.5)
5.	Industry and minerals	71.13	66.90	80.49	92.47	103.94
		(1.3)	(1.1)	(1.2)	(1.2)	(1.1)
6.	Transport	68.83	74.15	82.65	104.77	113.44
		(1.3)	(1.2)	(1.3)	(1.3)	(1.2)
7.	Communication	30.38	36.30	49.66	63.84	71.91
		(0.6)	(0.6)	(0.8)	(0.8)	(0.8)
8.	Others	11.40	12.95	13.16	18.44	20.40
		(0.2)	(0.3)	(0.1)	(0.2)	(0.2)
9.	Total	380.53	401.72	497.19	614.54	701.41
		(7.2)	(6.6)	(7.6)	(7.7)	(7.6)
	Financed by:					
10.	Budget support	175.94	176.71	196.34	250.12	272.78
		(3.3)	(2.9)	(3.0)	(3.1)	(3.0)
11.	Resources of PSEs:	204.59	225.01	300.85	364.42	428.63
		(3.9)	(3.7)	(4.6)	(4.6)	(4.6)
	of which:					
	Internal resources	107.21	120.07	161.29	188.53	229.31
	Borrowings	97.38	104.94	139.56	175.89	199.32

[1] Includes outlays under central and centrally-sponsored schemes implemented by the states.

Note: Figures in brackets are percentages to GDP
RE: Revised estimates; BE: Budget estimates.

Source: Budget documents of the Government of India.

Table 4. Plan outlay on social services: Centre, states and union territories (Rs. billion)

Sector	1990-91	1991-92	1992-93 RE	1993-94 BE
1. Education	23.17	25.99	29.93	39.84
2. Medical and public health	10.41	9.25	12.76	16.22
3. Family welfare	7.82	10.23	10.41	12.70
4. Housing	9.40	6.04	10.39	14.13
5. Urban development	7.40	7.48	8.04	8.80
6. Other social services	37.87	43.99	47.84	62.61
TOTAL	96.07	102.98	119.37	154.30
Percentage of outlay on social services to:				
a) Total plan outlay	16.5	15.9	15.5	15.4
b) GDP	1.8	1.7	1.7	1.9

Source: Economic Survey 1993-94, table S-48

Table 5. Main characteristics of the workforce in India, 1987-88

Item		Rural		Urban	
		Male	Female	Male	Female
Participation rate (per cent of relevant population)		53.9 (160.5)	32.3 (92.0)	50.6 (55.0)	15.2 (14.7)
Distribution of workers by industrial sector (per cent)	Primary	74.5	84.7	9.1	29.4
	Secondary	12.1	10.1	34.0	31.7
	Tertiary	13.3	4.2	56.9	38.9
Distribution of workers by status of employment (per cent)	Self-employed	58.6	60.8	41.7	47.1
	Regular employees	10.0	3.7	43.7	27.5
	Casual labour	31.4	35.5	14.6	25.4

Note: Figures in brackets give the absolute number of workers in millions.

Source: Sarvekshana, September, 1990.

Table 6. Incidence of unemployment by criterion, 1987-88 (per cent in labour force)

Criterion	Rural		Urban	
	Male	Female	Male	Female
Usual status	2.8	3.5	6.1	8.5
Adjusted usual status	1.8	2.4	5.2	6.2
Current weekly status	4.2	4.4	6.6	9.2
Current daily status	4.6	6.7	8.8	12.0

Source: Sarvekshana, Special number; September, 1990

Table 7. Growth rates of employment by major sectors 1977-78 to 1987-88 (annual growth in percentage)

Sector	1977-78 to 1983	1983 to 1987-88
1. Agriculture	1.20	0.65
2. Mining	5.85	6.16
3. Manufacturing	3.75	2.10
4. Construction	7.45	13.69
5. Electricity, gas and water supply	5.07	4.64
6. Transport, storage and communication	6.35	2.67
7. Services	4.69	2.50
Total sectors	2.22	1.55

Source: Government of India, Planning Commission (1990): A Note on Employment in the Eighth Plan.

Table 8a. Variations in employment and unemployment by level of living 1987-88: Rural (per cent)

MPCE class (Rs)	Unemployment rate AUS	Unemployment rate CDS	Sex ratio for workers
< 65	1.9	6.2	693
65-80	1.7	6.4	685
80-95	1.9	5.6	642
95-110	1.6	5.4	613
110-125	1.6	5.1	582
125-140	1.8	4.8	546
140-160	2.0	5.0	538
160-180	2.2	5.4	505
180-215	2.0	4.6	502
215-280	2.6	5.1	484
280-370	2.7	4.9	458
370 and above	2.7	4.6	244

Note: Sex ratio is defined as the number of females per thousand males.
AUS: Adjusted usual status; CDS = Current daily status
MPCE = Monthly per capita expenditure

Source: Sarvekshana; Special Number; September, 1990.

Table 8b. Variations in employment and unemployment by level of living 1987-88: Urban (per cent)

MPCE class (Rs)	Unemployment rate AUS	Unemployment rate CDS	Sex ratio for workers
< 90	4.3	11.1	469
90-110	3.6	11.2	399
110-135	5.0	10.6	358
135-160	6.1	11.1	321
160-185	5.9	11.0	294
185-215	6.6	10.1	247
215-255	5.5	8.6	213
255-310	6.1	9.0	199
310-385	5.6	8.4	178
385-520	5.2	6.7	190
520-700	2.5	3.8	222
700 and above	4.0	5.3	262

Note: Sex ratio is defined as the number of females per thousand males.
AUS: Adjusted usual status; CDS = Current daily status
MPCE = Monthly per capita expenditure

Source: Sarvekshana; Special Number; September, 1990.

Table 9. Variations in unemployment rates by age groups, all India, 1987-88 (adjusted usual status estimates; per cent)

Age group (years)	Rural			Urban		
	Male	Female	Total	Male	Female	Total
10-14	1.6	1.1	1.1	7.6	1.5	5.1
15-19	4.6	3.6	4.3	17.2	13.6	16.2
20-24	5.0	3.9	4.7	14.9	17.8	15.4
25-29	2.2	2.8	2.5	5.6	8.6	6.2
30-34	0.7	1.9	1.1	1.6	3.5	2.0
35-39	0.5	1.8	1.0	0.8	1.6	1.0
40-44	0.5	1.6	1.0	0.4	1.0	0.4
45-49	0.3	1.7	0.9	0.4	0.3	0.3
50-54	0.3	1.3	0.7	0.5	0.4	0.5
55-59	0.2	1.1	0.4	0.5	Nil	0.4
60+	0.3	0.9	0.4	0.4	Nil	0.3
All	1.8	2.4	2.0	5.2	6.2	5.3

Source: Sarvekshana; Special Number; September, 1990.

Table 10. Non-agricultural skills among the rural population, 1977-78 (current weekly status estimates)

Age group (years)	Percentage of persons with non-farm skills	Male					Percentage of persons with non-farm skills	Females				
		Percent distribution of skilled persons by broad category of skills						Percent distribution of skilled persons by broad category of skills				
		Traditional skills	Modern skills	Spinner/ weaver/ tailor	Carpenter/ mason/ brickmaker	Others		Traditional skills	Modern skills	Spinner/ weaver/ tailor	Carpenter/ mason/ brickmaker	Others
5-14	0.79	22.37	19.93	24.51	5.24	27.94	1.21	6.45	9.63	56.80	0.95	26.16
15-29	11.27	27.73	21.13	19.01	11.71	20.41	10.23	6.32	4.75	72.34	0.51	16.08
30-34	15.15	35.22	15.70	16.44	14.47	18.17	9.05	9.23	3.52	71.33	0.81	15.11
45-59	14.66	43.78	8.00	16.31	14.94	16.97	7.17	10.52	3.51	71.61	0.55	13.81
60+	10.06	48.92	6.36	16.27	14.34	14.10	4.15	10.59	5.75	71.97	0.66	11.04
All ages	8.82	35.09	15-39	17.55	13.31	18.67	6.34	7.96	4.56	71.00	0.63	15.84

Note: The composition of the broad skill groups is as follows - traditional skills; shoemaker, blacksmith, goldsmith, silversmith, boatman, potter, basket maker, barber and thatcher. Modern skills; moulder, machine man, fitter, welder, electrician, driver, nurse, typist and miner. Others: fishermen, book-binder and 'others' (in the NSSO classification)

Source: Sarvekshana, Vol. V; Nos. 1 and 2; July-October, 1981.

Bibliography

Ahluwalia, Isher Judge (1985). *Industrial Growth in India: Stagnation Since the Mid-Sixties*, Oxford University Press, New Delhi.

Ahluwalia, Isher Judge (1991). *Productivity and Growth in Indian Manufacturing*, Oxford University Press, New Delhi.

Amiya, Kuma Bagchi (1994): *Public Sector Industry and the Political Economy of Indian Development*, in T.J. Byres (ed.)

Bajpai, Nirupam (1993). 'Stabilisation with Structural Reforms: Can the Two be Pursued Simultaneously?', *Economic and Political Weekly* (Bombay), May 15, 1993.

Bhadhuri, Amit (1993). *Structural Adjustment, Labour Market and Employment in India*, ARTEP, ILO, New Delhi.

Bhagwati, Jagdish (1993). *India in Transition: Freeing the Economy*, Clarendon Press, Oxford.

--- and Srinivasan, T.N. (1993). *India's Economic Reforms*, Ministry of Finance, Government of India, New Delhi.

Bhalla, Sheila (1987). 'Trends in Employment in Indian Agriculture, Land and Asset Distribution', *Indian Journal of Agricultural Economics* (Bombay), Vol.42, No.4.

Bhattacharya, B.B. and Mitra, Arup (1990). 'Excess Growth of Tertiary Sector in Indian Economy: Issues and Implications', *Economic and Political Weekly*, November 3, 1990.

--- (1993). 'Employment and Structural Adjustment: A Look at 1991 Census Data', *Economic and Political Weekly*, September 18, 1993.

Bharadwaj Krishna (1994). *Agricultural Price Policy for Growth: the Emerging Contradictions*, in T.J. Byres (ed.)

Byres, T.J. (ed.) (1994). *The State and Development Planning in India*, Oxford University Press, New Delhi.

Centre for Monitoring Indian Economy (1993). *Corporate Results: 1992-93*, CMIE, Bombay

Chandrasekhar, C.P. and Ghosh, Jayati (1993). 'Economic Discipline and External Vulnerability: A Comment on Fiscal and Adjustment Strategies', *Economic and Political Weekly*, April 10, 1993.

Datt, Ruddar (1993). 'New Economic Policy and its Impact on Industrial Relations and Employment in India', *Indian Journal of Labour Economics* (New Delhi), January-March 1993.

Deshpande, Sudha and Deshpande, L.K. (1992). 'New Economic Policy and Female Employment', *Economic and Political Weekly*, October 10, 1992.

Drèze, Jean (1990). 'Poverty in India and the IRDP Delusion', *Economic and Political Weekly*, September 29, 1990.

EPW Research Foundation (1993). 'India's External Debt', *Economic and Political Weekly*, June 5, 1993.

Government of India (1984). *Against Undeserved Want: Report of the Working Group on Social Security*, New Delhi, 1984.

--- Economic Advisory Council (1990). *Towards Evolving an Employment Oriented Strategy for Development in the 1990s,* New Delhi.

--- (1991a). *Interim Report of the Tax Reforms Committee*, Ministry of Finance, GOI, New Delhi.

--- (1993a). *Economic Reforms Two Years after and the Task Ahead*, Ministry of Finance, GOI, New Delhi.

--- Ministry of Finance (1993b). *Public Sector Commercial Banks and Financial Sector Reform Rebuilding for a Better Future*, New Delhi.

Guhan, S. (1992). 'Social Security Initiatives in Tamil Nadu 1989', in Subramanian, S. (ed.) *Themes in Development Economics: Essays in Honour of Malcolm S Adiseshiah*, Oxford University Press, New Delhi.

--- (1993a). *Centre and States in the Reform Process* (mimeo).

--- (1993b). *Social Security Options for Developing Countries*, (mimeo).

Gupta, Suraj, B. (1992). *Black Income in India*, Sage Publications, New Delhi.

Gupta, S.P. (ed.) (1993). *Liberalisation: Its Impact on the Indian Economy*, McMillan India Limited, New Delhi.

Harriss, John (1989). 'Vulnerable Workers in the Indian urban labour market', in Rodger, Gerry (ed.): *Urban Poverty and the Labour Market: Access to Jobs and Incomes in Asian and Latin American Cities*, International Labour Organisation, Geneva.

--- et.al. (1992). *Economic Reforms in India: Potential Impact on Poverty Revolution and Implications for Social Policy*, Development Studies Institute, London School of Economics, London.

---, Kannan, K.P. and Rodgers, Gerry (1990). *Urban Labour Market Structure and Job Access in India: A Study of Coimbatore*, International Institute of Labour Studies, Geneva.

Horton, Susan, Kanbur, Ravi and Majumdar, Dipak (1991). 'Labour Markets in an Era of Adjustment: Evidence from 12 Developing Countries', *International Labour Review* (Geneva), Vol.130, 1991, No.5-6.

ILO, ARTEP (1992). *Social Dimensions of Structural Adjustment in India*, New Delhi.

Jose, A.V. (1992). 'Earnings, Employment and Productivity Trends in Orgnaised Industries in India', *Indian Journal of Labour Economics*, July-September, 1992.

Khanna, Sushil (1992). 'International Trade and Debt: India in the Eighties', *Social Scientist* (New Delhi), January-February, 1992.

Kurian, N.J. (1990). 'Employment Potential in Rural India: An Analysis', *Economic and Political Weekly*; December 29, 1990.

Lucas, Robert, E.B. (1988). 'India's Industrial Policy', in Robert E.B. Lucas and Gustav F. Papanek (Ed.): *The Indian Economy: Recent Development and Future Prospects,* Oxford University Press, New Delhi.

Mahendra Dev, S. (1992). *Poverty Alleviation Programmes: A case study of Maharastra with Emphasis on Employment Guarantee Scheme*, Discussion Paper No.7, Indira Gandhi Institute of Development Research, Bombay.

Mani, Sunil (1991). 'External Liberlaisationa and Import-Dependence: A Note', *Economic and Political Weekly*, July 6-13, 1991.

Mathur, Ajeet, N. (1992). 'Employment Security and Industrial Restructuring in India: Separating Facts from Folklore: The Exit Policy Controversy', *Indian Journal of Labour Economics*, July-September, 1992.

Mundle, Sudipto (1992). 'The Employment Effects of Stabilisation and Related Policy Changes in India: 1991-92 to 1993-94', in ILO-ARTEP (1992): *Social Dimensions of Strucutral Adjustment in India*, New Delhi.

Nagaraj, R. (1990). 'Industrial Growth: Further Evidence and towards an Explanation and Issues', *Economic and Political Weekly*; October 13, 1990.

--- (1993). *Employment and Wages in Manufacturing Industries in India: Trends, Hypothesis and Evidence*, Discussion Paper No.98, Indira Gandhi Institute of Development Research, Bombay.

Nayyar, Deepak (1993a). 'Indian Economy at the Crossroads: Illusions and Realities', *Economic and Political Weekly*, April 10, 1993.

--- (1993b). *Economic Reforms in India, A Critical Assessment*, ARTEP, ILO, New Delhi.

Paranjape, H.K. (1991). "New Industrial Policy: A Capitalist Manifesto", *Economic and Political Weekly*, October 26, 1991.

Patnaik, Prabhat (1994). *Critical Reflections on Some Aspects and Structural Change in the Indian Economy*, in T.J. Byres (ed.)

--- and Rao, S.K. (1977). 'Beginning of the End of Stagnation', *Social-Scientist*, January-February, 1977.

Planning Commission (1990). *Employment: Past Trends and Prospects for 1990s*, Working Paper, New Delhi.

Rai, Kartik (1992). 'The Indian Economy in Adversity and Debt', *Social Scientist*, January-February, 1992.

Raipuria, Kalyan and Mehta, Rajesh (1991). 'Role of Public and Private Sectors in India's Development: Selected Simulations from a Macroeconometric Model', *Economic and Political Weekly*, August 24, 1991.

Rao, C.H. Hanumantha (1992). 'Integrating Poverty Alleviation Programmes with Development Strategies: Indian Experience', *Economic and Political Weekly*, November 28, 1992.

Rao, J. Mohan (1994). *Agricultural Development Under State Planning*, in T.J. Byres (ed.)

Rao, S.L. (1993). *Economic Reforms and Indian Markets*; Wheeler Publishing Company, Allahabad.

Rath, Nilakanth (1985). 'Garibi Hatao: Can IRDP Do It?, *Economic and Political Weekly*, February 9, 1985.

Ravallion, Martin and K. Subbarao (1992): *Adjustment and Human Development in India*, World Bank, Washington D.C.

Rodgers, Gerry (1993). *The Creation of Employment in Segmented Labour Markets: A General Problem and its Implications in India*, Discussion Paper No.53, International Institute of Labour Studies, Geneva.

Rudra, Ashok (1988). 'Luxury-Led Growth Strategy and Its Beneficaries', *Economic and Political Weekly*, July 2, 1988.

Sandesara, J.C. (1991). 'New Industrial Policy: Questions of Efficient Growth and Social Objectives', *Economic and Political Weekly*, August 3-10, 1991.

--- (1993). 'Modern Small Industry, 1972 and 1987-88: Aspects of Growth and Structural Change', *Economic and Political Weekly*, February 6, 1993.

Sarkar, Suman (1993). 'Growth Perspectives of the Eighth Plan: A Two-Sector Open Economy Framework', *Economic and Political Weekly*, July 3-10, 1993.

Sen, Abhijit (1992). 'Economic Liberalisation and Agriculture in India', *Social Scientist*, November, 1992.

Sen Gupta, D.N. (1993). 'Indian Manufacutring Industry: Growth Episode of the Eighties', *Economic and Political Weekly*, May 29, 1993.

Sen, Sunanda and Das, Upendra R. (1992). 'Import Liberalisation as a Tool of Economic Policy in India since Mid-Eighties', *Economic and Political Weekly*, March 21, 1992.

Shetty, S.L. (1990). 'Investment in Agriculture: Brief Review of Recent Trends', *Economic and Political Weekly*, February 17-24, 1990.

Shroff, Manu (1993). 'Indian Economy at the Crossroads', *Economic and Political Weekly*, May 8, 1993.

Singh, Ajit Kumar (1993). 'Social Consequences of New Economic Policies: With Particular Refernece to Levels of Living of Working Class Population', *Economic and Political Weekly*, February 13, 1993.

Srinivasan, T.N. (1991). 'Reform of Industrial and Trade Policies', *Economic and Political Weekly*, September 14, 1991.

--- and Narayana, N.S.S. (1977). 'Economic Performance since the Third Plan and Its Implications for Policy', *Economic and Political Weekly,* Annual Number, 1977.

Subbarao, K (1985). 'Regional Variations in Impact of Anti-Poverty Programme: A Review of Evidence', *Economic and Political Weekly*, October 26, 1985.

Taylor, Lance (1988). *Varieties of Stabilisation Experience: Towards Sensible Macroeconomics in the Third World*, Clarendon Press, Oxford.

Vaidyanathan, A. (1994). *Employment Situation in India: The Emerging Perspective*, Gujarat Institute of Development Research, Ahmedabad.

Veltmeyer, Henry (1993). 'Liberalisation and Structural Adjustment in Latin America: In Search of an Alternative', *Economic and Political Weekly*, September 25, 1993.

Visaria, P. and Minhas, B.S. (1991). 'Evolving an Employment Policy for the 1990s: What Do the Data Tell Us?,' *Economic and Political Weekly*, April 13, 1991.

World Bank (1992). *India: Stabilising and Reforming the Economy*, Washington, D.C., May, 1992.