

□ Economic growth without employment.

(The story of Indian manufacturing). (Jayan & Thomas)

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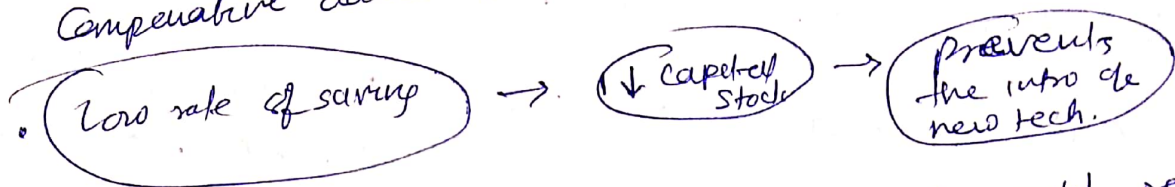
1) Introduction.

- 1950s → state-led industrialization
- Efforts to build scientific and technological capabilities.
- After 7 decades later, India's record with respect to economic growth & development is mixed, Its GDP (PPP) → 3rd largest in the world HDZ (2014) → 135 out of 187 countries.
- Why India failed to convert growth into development.
- It depends on the nature of growth process which has largely been driven by service sector.
- In ~~2009-12~~
- In 2009-12, the manufacturing sector employed only 53.3 million less than ~~the total~~ 12% of the total workforce of 462 million.
- At the root of India's developmental challenges is the slow pace of employment generation.
- Thomas Hound ~~found~~ that, given the rate of increase in India's working age popⁿ, the workforce employed in manufacturing & services sector could potentially have grown at the rate of 15 million a year between 2004-05 & 2011-12. But the actual was only or around 7 million jobs.

- India's inability to build a manufacturing sector large enough to absorb a substantial part of the country's labour reserves is striking. (2)
- ~~the~~ Manufacturing sector - Earlier planning
- Second phase (1991) pursued on mkt-led path?
- The promises of India's planners
 - The creation of employment opportunities, promised first by India's planners and then in later years by its mkt-led reformers, failed to ever eventuate.
- This paper aims to examine the challenges faced by Indian manufacturing over the years, especially in regard to employment creation.
- Indian manufacturing is made up of organised and unorganised sectors.

- ## 2) Indian Planning and capital-intensive industrialisation
- During the first half of the 18th century, before the country was colonised by the European powers, India had been major manufacturer of handicrafts.
 - Indian handicrafts, unable to compete with factory-produced cloth from Britain, faced annihilation in both domestic and export mts.
 - Factory based manufacturing had begun in India in the 1850s, with setting up of cotton and jute textile factories in Bombay & Calcutta respectively.
 - Growth of aggl. was so sluggish during 20th century.

- Planning started in early 1950s.
- Second FYPs started focused on industrialisation.
(building of heavy or capital-intensive industries that were capable of substituting imports with domestically produced machinery).
- Given its relative abundance of labour reserves & relative deficiency of capital, India's choice of capital-intensive techniques for its industrialisation strategy went against ~~the theory~~ the theory of comparative advantage.



- According to the IIFYP (model), this could result in a higher savings rate on the margin and a higher rate of growth in output.
- India's industrial policy during early years of planning (1950s & 1960s) →
 - i) mainly in infrastructure
 - ii) Trade & Tariff barriers
 - iii) Investment in private sector
 - iv) Regulations on private sector
- Land reforms.
- Slow growth of agri. sector and its inefficient contribution in industrial growth.
- Slow progress in agri. & using old for foodgrains resulted in higher inflation.
- Ill-designed licensing regime →

3) Growth during the 1980s.

- India's industrial growth revived during the 1980s.
- Revival has been attributed to several factors, including improvement in public sector investment.
- P. Expⁿ in infra.

- During the phase of 1980s, despite the increase in growth, there were low growth or stagnant growth in employment generation.
- [During 1969-70 and to 1979-80 → 2.6 million jobs
Int between 1980-81 and 1991-92 → 0.4 million jobs.] organised
- In spite of slow growth of factory or organised manufacturing employment, overall manufacturing employment in India increased by a substantial 7.6 million jobs during 1980s. This was due to job creation in unorganised sector.
- Areas → Food products, ~~tobacco~~ tobacco, wood products, furniture and chemical products where jobs generated in unorganised sector
- The ~~gr~~ Overall, the growth of non-agrl. employment during 1980s was relatively fast, espct especially in the rural areas.
- Integrated Rural Development Programme (IRDP) contributed to a substantial redⁿ in poverty during this decade.

3.1) Studies of labour rigidity.

- According to ~~many~~ numbers of academicians and policy makers, the slow growth of factory employment ~~was~~ during 1980s was due to ~~high~~ rigidity in the country's labour mkt.
- Industrial Disputes Act-(IDA of 1947) & its amendments (1972, ~~1976~~ 1976, & 1982)

- It is also well known that - more than 90 per cent of India's working population who are in the unorganised sector are not protected by any labour to regulations not covered by social security benefits.

• 1976 → ≥ 300 worker employed required permission from govt to retrench & close factory

• 1982 → ~~≥ 100~~ it reduced to ≥ 100

• Pro-worker & Pro-employer (1958-92 period)
Study revealed states

[Pro-worker ~~industries~~ states experienced a relative slowdown in output & employment-growth in the organised sector]

4) Industrial growth after the 1990s

- Economic reform (1991).
- Reforms virtually eliminating licencing, reduced regulatory barriers & deepened the country's trade & financial relations with rest of world.
- External reforms have accelerated during the 2000s, especially since the middle of the present decades.
- The impact of these reforms on the growth of output & employment has been mixed.

- India's organised manufacturing sector experienced sharp acceleration with output & employment (1991-92 to 1995-96) - Decelerated between (1996-97 and 2001-02) because of sharp ~~sector~~ revival in private-sector investment & structural adjustment programme.

- | | |
|---------|---|
| 1970-71 |] Public sector GFCF > Pvt S. GFCF (6 & 2) % of GDP |
| 1986-87 | |
| 1996-97 | |
| 2007-08 | |
| 2010-11 | |

1986-87: Δ Gap (12 & 4)
 1996-97: Almost equal (8 %)
 2007-08: Declining Pvt GFCF because of GFC. & stagnant Public
 2010-11: Both declining
- Growth of organised manufacturing sector \rightarrow 1.2 million in between (1982-83 & 2004-05)
 4 million in 2004-05 & 2010-11

4.) Not constrained by labour laws.

- The argument that labour laws have hindered Indian industrial growth has become almost ~~the~~ irrelevant in the light of recent evidence.

- Contract workers or other employees who are outside the purview of the labour laws have accounted for 69% of employment-growth in India's organised manufacturing during 2000s.

	1999-00	2009-10
Contract-workers as a proportion of all workers in India's factory sector	19.8	32.8

- The trade union activism has been declining in India since the early 1990s & labour bargaining strength relative to capital have been substantially reduced.

- Since the beginning of the 2000s, growth in the real wages of India's factory workers has increasingly been falling behind the growth of labour productivity.

→ There is little evidence to support the argument that labour regulations represent the main ~~constraint~~ constraint on the growth of manufacturing employment in India.

6) Constraints on Indian manufacturing

6.1) Infrastructure growth (electricity, roads & port) has failed to catch up with the overall pace of economic growth. This has resulted in severe supply-side bottlenecks adversely affecting the growth of the country's manufacturing sector.

Decline in public investment in infrastructure.

6.2) Industrial policies

6.2.1) Availability and cost of credit.

(Banking policy pre & post 1990s)

6.2.2) Exchange rates, price fluctuations & their links to Capital Flow.

(Higher volatility after 1990s).

6.2.3) Trade liberalisation & rising import intensity of manufacturing

6.3) Demand-side constraint on industrial growth.

• Slow growth rate of effective dd, which was the result of low P.C.I and high inequality in income distribution.

- Demand for different categories of goods & services tend to its consequences

1) What happened to Labour-intensive industries?

- India ~~was~~ indeed a labour-intensive country.
- India's failure to emerge as a major player in textiles or in networking, especially given its relatively early start in the industry.
- According to India's II FYP, the prodⁿ of ~~some~~ consumer goods such as textiles should ~~to~~ ideally be carried out in SS Sector/Industries. This was expected, would help to alleviate the problem of unemployment..
- The consumer goods sector was also expected to generate the savings required to sustain capital goods prodⁿ.
- Indian govt. banned the creation of new textile production ~~in~~ handloom capacity in mills from 1950 onwards. The govt. even discouraged the prodⁿ of cloth in power looms to encourage the SSZ/Sectors.
- Tech progress was also sluggish.
- Resultant - slow growth in textile & zero employment generation \rightarrow \downarrow effective dd etc.
- Most of India's L-I industries operate as small & micro enterprises. The SS & DI & policy related factors ~~also~~ were the constraints behind the low growth of GDD & Employment.

8) Conclusion

- Examined Overall manufacturing sector & ~~can~~ Employment trend in different phases
- 2009-10 → 53.3 million people less than 12% of the total workforce.
→ only 21% engaged in organised sector of all manufacturing sector.
- ~~Deeter~~ Growth of employment decelerated sharply since the middle of the 2000s.
- SS & DD side constraints
- Labour laws. (Policy of Manufacturing sector).
- GFCF of public & PR sector.
- FDI inflow & FPI inflow.
- UPA, ~~later~~ launched a National Manufacturing Policy 2011, The NDA announced a "Make in India".
- SEZs.
- Policy recommendation (Promote SS side factory especially infrastructure).
- Better Research activities etc.