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# Conditions of Labour in the Organised Manufacturing in India

Gautam Kumar , JNU Research Scholar

## Abstract

This paper examines the conditions of labour in organised manufacturing. It examines the trends in the distribution of income in Indian organised manufacturing sector during the period from 1998-99 to 2012-13 by using the aggregate and disaggregate data from Annual Survey of Industries. During the period, at aggregate level the organised Industry shows convincing changes, if not dramatic (in terms of output, income and employment). The period also provided the much-needed break from the 'jobless growth' as the organised manufacturing sector experienced some employment growth. But, if we look at the distribution of income/value addition in this period it was in favour of capital. As a class, labour lost not only in terms of wages but also in terms of job security and declining social security. The rise in share of contract workers also suggests in that direction only.

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**Keywords:** Income distribution, Organised Manufacturing, Employment, Contract workers

## INTRODUCTION

Growing wealth and income inequality is a big concern for national and world economy. Source of this inequality is uneven distribution of income. As the biggest employer of organized labour market (private), manufacturing sector is very important in the Indian context. In India the organised manufacturing sector consisting of those factories that employ 10 workers using power, or 20 without using power<sup>1</sup>. Being the main part of secondary sector in economy, organised manufacturing has its own importance in many ways. In India it consists of about 3% of the workforce here and produces about 11% of the GDP (Chakraborty, 2016). All India data for organised Industry saw convincing changes, if not dramatic, during the period (in terms of output, income and employment). The period

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<sup>1</sup> See ASI definitions



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between 2003-04 to 2007-08 was the period of high growth of output and investment in India's industrial sector. Overall growth rate of Indian economy, led by service sector growth, was impressive during this period and growth of organized manufacturing was also convincing if not much impressive. The period experienced not only the high growth of output and investment but overall productivity was also on the rise. Now, if we look at the distribution of income/value addition in this period it was not in favour of labour. The distribution share of the returns to different factors of production became more asymmetric. Share of the profit increased drastically but at the cost of pushing the share of wages towards bottom-line. Source of this profit was not usual one; it was declining cost of labour and that of capital. But at the same time arguments have been put forward that Indian organised labour market is rigid. It is against this backdrop the paper examines the conditions of labour in organised manufacturing.

### **Literature review:**

The existing works on industrial disparity focus on 'location of industries', which itself is dependent on various other factors like social, historical, economic etc. There are several studies, which focus on this issue of industrial disparity in India. This section is for reviewing some of these studies. The purpose of this literature review is to pointing out the gap in these studies and therefore providing the necessity of this current study.

There are many studies on distribution of income in the organised manufacturing sector. The indication of increasing inequality in this sector was evident from the fact that there was rising gap between the wage and the salary of the managerial staffs since early 2000s (Sood, et al 2014). Supervisory staffs enjoyed more and more of the pie from the distribution of income in this sector. A comparison between 'the level of industrial real wage' and that of 'per capita income' showed that the first has always been higher for obvious reasons but the gap between these two variables has been declining in this century (Chakraborty, 2016). There has been a positive growth in real per capita income over the years but the data for industrial real wage shows stagnation since the beginning of this century.

The performance of organised manufacturing sector in creating employment has been analysed by many researchers since the early 1980s. With special emphasis on the pre-and post-reform period they



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examined the sluggish contribution of the organised manufacturing in employment growth despite extensive reforms in the economy like the liberalization of the industrial licensing regime, relaxation of stringent labour market regulations, etc. The deceleration in employment growth took place both at the aggregate level and for most two-digit industry groups (Nagaraj, 1994). Varied reasons were advanced by the researchers for the stagnant employment growth in the 1980s. In his study on organised sector workers, Nagaraj provided evidence that bargaining power of organised workers declined in the 1980s and argued that since structure of employment had moved towards smaller sized establishments; it was unlikely that unionised labour secured a disproportionate increase in the real wage. Papola (1994), Nagaraj (1994) provided alternative explanations also for the stagnant employment growth in the organised manufacturing in 1980s. Papola and Nagaraj argued that the composition of output changed in favour of less-labour intensive industries in 1980s.

Recent growth of the employment in the organised manufacturing in India, which started around 2002-03, was carefully examined by the researchers and scholars. In this regard it is worth to discuss the famous Goldar and Nagaraj debate on this issue. Both of them provided their explanation of the recent increase in organised manufacturing employment during that period. Goldar's explanation for this recent increase in organised manufacturing employment was labour market flexibility. He explained that changes in the labour laws and practices in India had brought the labour market flexibility which was the main reason for this employment growth (Goldar, 2011a). But Nagaraj's explanation for this recent increase in organised manufacturing employment was just a recovery of the lost employment (of previous period) and not the change in labour market flexibility (Nagaraj, 2011). Responding to this 'recovery of lost employment' argument Goldar rejected it and argued that if that was the case then most of the recovery should be in those states which lost more jobs in previous period. By providing data from various states to show that this was not the case and the increased employment is much more than that of a recovery of lost employment.

What is more interesting is the fact that the data from unorganised sectors has revealed that same is not true for the unorganised sector manufacturing. The employment generation here was sluggish during the same period as pointed out by Prof. Srivastava (2012). His preliminary analysis of the 'NSS 66th (2009-2010) Employment-Unemployment surveys' has pointed out that there was almost no employment growth in this sector during the period.

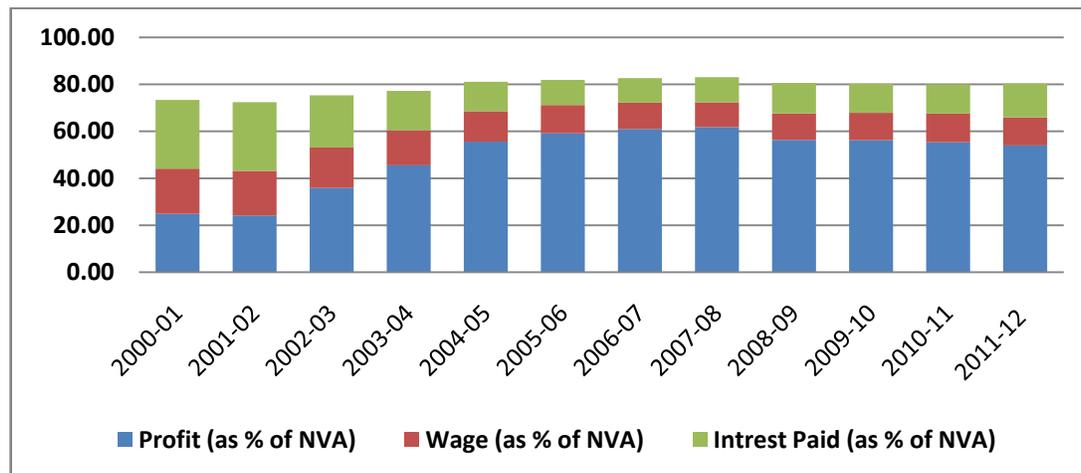
It is against this backdrop the paper examines the conditions of labour in organised manufacturing. It

examines and analyses the trends and changing patterns in distribution of income in India’s organised manufacturing by examining changes in key distribution of value added in the period from 1999-00 to 2012-13. It also analyses the changes in the distribution of non-wage/non-salary component of the income to examine the status of social security for workers in this sector during the period to analyse the changes in the distribution of income between the workers and other staffs in this sector during the period.

**Distributional aspects:**

As mentioned earlier, the period 2003-04 to 2007-08 was the period of high growth of output and investment in India’s industrial sector. At aggregate level i.e. All India data for organised Industry shows convincing changes, if not dramatic, during the last 15 years (in terms of output, income and employment). Overall growth rate of Indian economy, led by service sector growth, was impressive during this period and growth of organized manufacturing was also convincing. The period has experienced not only the high growth of output and investment but overall productivity was also on the rise. Now, if we look at the distribution of income/value addition in this period it is not in favour of labour. The distribution of the returns to different factors of production becomes more asymmetric during this period. Share of Profit increased drastically but at the cost of pushing the share of Wages and interest towards bottom-line. (see figure-1)

**Figure 1: Distribution of NVA (All India)**



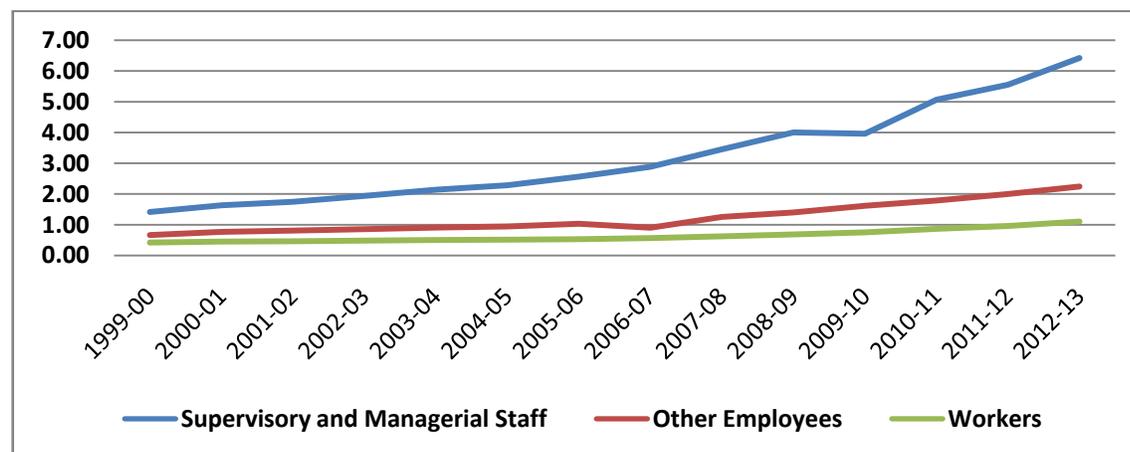
Source: ASI

The data above suggests that the distribution of the returns to different factors of production becomes more asymmetric during this period. Share of Profit increased drastically from around 25% in 2000-01 to 62% in 2006-07. But at the cost of pushing the share of wages towards bottom-line as it declined from around 30% to less than 11% during the same time.

### Distribution of income between workers and others:

The gap between ‘nominal salaries per employee’ and ‘nominal wages per workers’ was not so evident till mid-90’s. But after that it is not only evident but the difference has been growing over the years among workers, other employees and supervisory and managerial staff. (see figure-3)

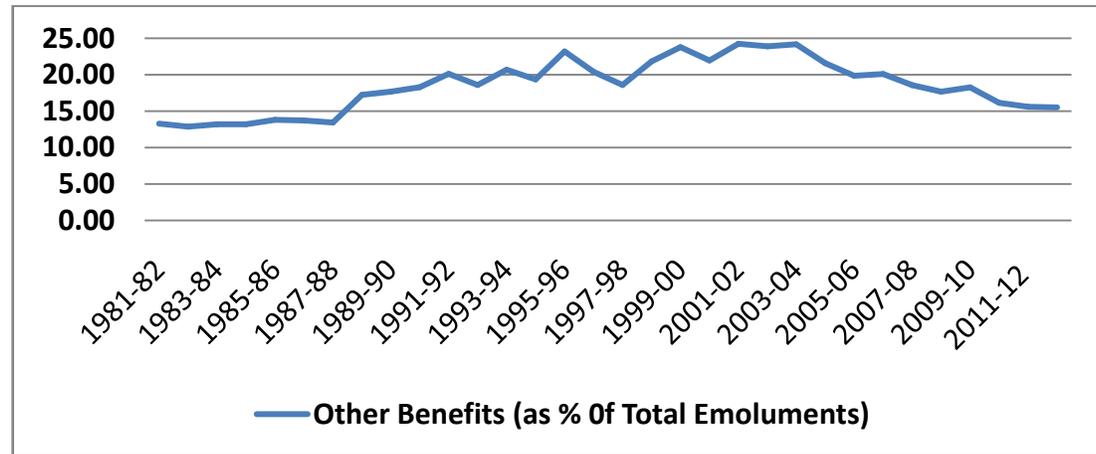
**Figure 2: Wage/worker and Salary/employee**



Source: ASI

The data shows that ‘nominal salaries per employee’ for supervisory and managerial staff was triple that of other employees and more than six times that of worker’s ‘nominal wages per workers’. Even the difference between the wage of workers and the salary of other employees widened during this period. So, inequality did not increase between labour and the class that owned capital but also within the labour class.

Other than the declining share of wage in the distribution of income, one more variable which can explain the condition of workers is different provisions for social security. (see figure-4)

**Figure 3: Social Security**

Source: ASI

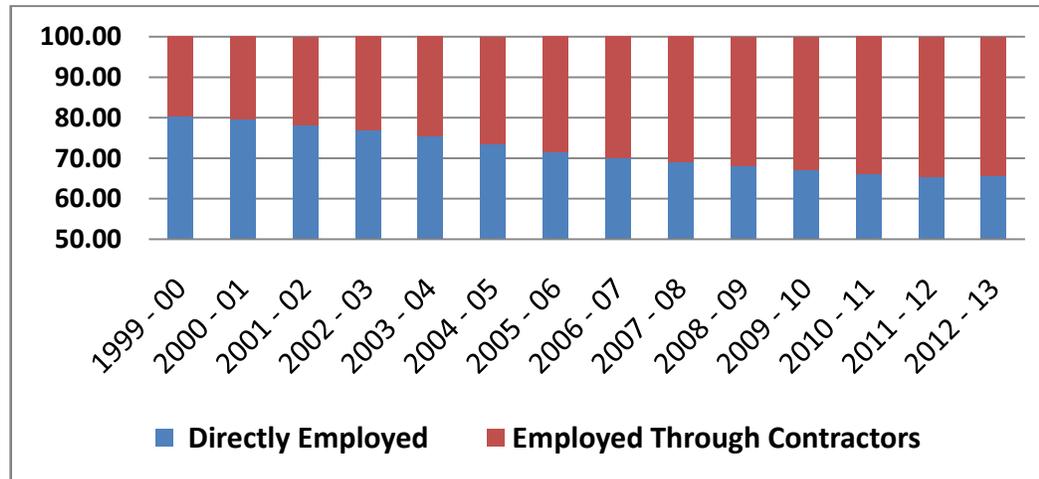
ASI data provides data on this with heading ‘other benefits’ (which includes PF, old age or any other pension etc.) for all employees and workers. In figure-8, ‘other benefits’ as % of total emoluments has been presented. It shows that for 80’s it was almost constant, from late 80’s onwards it started to increase till 2002-03. Since then it is declining and data in last 5 years during this period shows that it was at the level what it was during late 80’s.

Not only the wage and other benefits was declined during this period but informalisation of work within the formal sector took place during these years. Next section looking into this.

### **Informalisation of workers:**

The share of contract workers in total employment increased sharply during this period and the increase in contract workers accounted for a significant portion of the total increase in employment suggesting that increase in labour market flexibility was the main driver of employment growth in the organised manufacturing sector.

**Figure 4: Contractualisation in organised manufacturing sector**



Source: ASI

The data above suggests the massive deployment of contract workers during this period. The share of workers that was ‘employed through contractors’ was increased from less than 20% to more than 34%. Within 14 years the share of such workers was increased by around 15%. This suggests that majority of employment generated during this period in organised sector was contractual.

**Conclusion:**

Income and wealth inequality have been a big concern for national and world economy in recent time and main source of this inequality is uneven distribution of income. This is true for the Indian organised manufacturing sector too. After 2000-01 the distribution share of the returns to different factors of production become more asymmetric in this sector. Share of Profit increased drastically but at the cost of pushing the share of Wages towards bottom-line. So, the period of high growth of output, investment and productivity from 2003-04 to 2007-08 was accompanied by a sharp rise in the share of profits while the share of wages declined. Also gap between the wage of workers and salary of employees and managerial and supervisory staff has widened in this period like never before. The adverse impacts of this kind of disparity and uneven distribution of income are: accumulation of wealth in few hands, social unrest among workers, less demand of manufactured goods from workers and instability in economy.



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