

EMPLOYMENT AND PRODUCTIVITY IN THE INFORMAL MANUFACTURING SECTOR

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Abstract

The slow growth of Indian manufacturing is a concern for many observers of the Indian economy, and India's manufacturers have long performed below their potential. Although the country's manufacturing exports are growing, its manufacturing sector generates just 16% of India's GDP, much less than the 55% from services. The formal sector has been able to accommodate only a small proportion of the increase in the labour-force in these countries over a period of time and the major brunt has to be borne by its counterpart. A great majority of people in the developing nations are under the line of poverty. They are deprived of adequate access to the basic needs of life such health, education, housing, food, security, employment, justice and equality. Informal sector provides the means of livelihood to millions of people around the world, particularly in the developing countries. Informal sector is an important but controversial part of the economy. Informal sector employment is a necessary survival strategy in countries which do not have social safety nets such as unemployment insurance or where wages and pensions are low. As per the recent Census of India 2011, urban population of India constitutes about 37.7% of the overall population with a decadal increase of 9.1% as compared to 27.81% in 2001. It has been estimated that about 90 per cent of the labour-force in the country is engaged in various informal sector activities, such as manufacturing and repair services, trade, transport, construction, etc., for their sustenance. This paper is going to deal with employment and productivity in informal manufacturing sector in India.

Keywords: Employment, Productivity, Informal sector, Manufacturing, GDP, Wage.

Introduction

The informal manufacturing sector in India accounts for nearly two-thirds of manufacturing employment (NCEUS, 2008). Informal sector provides the means of livelihood to millions of people around the world, particularly in the developing countries. In India, informal sector was thought to be a transient phenomenon which will ultimately be integrated with the mainstream of economic development. The unorganized workers are subject to exploitation significantly by the rest of the society. They receive poor working conditions especially, wages much below that in the formal sector, even for closely comparable jobs, i.e, where labour productivity are no different. The work status is of inferior quality of work and inferior terms of employment, both remuneration and employment. Predominance of informal employment has been one of the central features of the labour market scenario in India. While the sector contributes around half of the GDP of the county, its dominance in the employment front is such that more than 90% of the total workforce has been engaged in the informal economy.

Defining formal/informal sectors in India

The unorganised sector consists of all incorporated private enterprises owned by individuals or households engaged in the sale and production of goods and services operated on a proprietary or partnership basis and with less than ten workers (or twenty if not using electricity). The organised sector consists of all public sector enterprises and all private sector enterprises with more than 10 workers (more than 20 if not using electricity). Informal workers consist of those working in the unorganised sector or households, excluding regular workers with social security benefits, and the workers in the organised sector without social security benefits. Contract workers in the organised sector are not covered by social insurance systems and thus count as informal workers. Formal workers are workers working in the organised or unorganised sector entitled to social security benefits.

National Manufacturing Policy

The NMP has six objectives: i) Increase manufacturing sector growth to 12-14% over the medium term, to contribute at least 25% of the National GDP by 2022; ii) Promote job creation in manufacturing with a target of 100 million additional jobs by 2022; iii) Create appropriate skills among the rural migrants and urban poor to make growth inclusive; iv) Increase domestic value addition and technological depth in manufacturing; v) Enhance global competitiveness of Indian manufacturing; vi) Ensure sustainability of growth, particularly with regard to the environment. The NMP provides special focus to industries that are employment intensive, those producing capital goods, those having strategic significance and where India enjoys a competitive advantage (automobile, pharmaceuticals and medical equipment), small and medium enterprises, and public sector enterprises – the so-called Special Focus Sectors.

Informal Economy

The informal sector constitutes largest portion of the economy in terms of value addition, savings, investments etc. The share of formal sector is around 12 -14 percent in our national income while that of informal sector is more than 30 percent. In the case of United States, the share of corporate business is nearly 70 percent. The contribution of the unorganised sector to the net domestic product and its share in the total NDP at current prices has been over 60%. In the matter of savings the share of household sector in the total gross domestic saving mainly unorganised sector is about three fourth. Informal employment that characterizes the unorganized sector comprises both self-employment in informal enterprises (small or unregistered) and wage-based employment undertaken without a transparent employment contract in both informal and formal sector enterprises. It is argued that though informal sector provides employment to about 90% of the population its contribution towards NDP is only 60%, and this is due to the overall low-productivity in the informal sector.

Informal manufacturing sector in India

More than two-third of manufacturing sector employment in India is provided by the informal sector. The growth rate of Indian economy has been pushed up from 5.5-6.5 per cent to 8-9 per cent in the last decade. Though, India has recently enjoyed high economic growth, but this has been jobless growth which is unsustainable. The pattern of development in case of Indian economy has been different than the other developing countries. Manufacturing sector with far less share in GDP has a distinctive feature of dualism

i.e. the existence of a relatively small set of formal sector firms which have a largely protected workforce along with a large number of firms in the informal sector, where workers have little access to social security, employment protection and other benefits (Mazumdar and Sarkar, 2008). Whether the organized sector is complementary to unorganized sector or organized sector leads to marginalization of unorganized sector and it has been an issue of debate for years. The growth of employment in this sector gained more momentum especially after the reforms in India.

The size of the informal sector has increased not only in terms of employment, but also in terms of its contribution to total industrial output and total manufacturing exports by the country. In India the share of manufacturing sector in GDP has remained constant since two decades (80s and 90s) and has hovered around 16 to 17%. As a result, the share of Industry (of which manufacturing constitutes a major part) has been around 30%. Increasing consumer spending in rural areas, and the emergence of tier-II and tier-III cities will boost domestic consumption, offering opportunities to global manufacturers. In order to bring about the structural change in the economy (as envisioned in the transition from a 18% manufacturing share to GDP to a share of 25%), India will also have to move from low value-added to high value added and from low productivity to high productivity sectors or activities. The current government has initiated the drive to reinvigorate the manufacturing sector. The 'Make in India' initiative of the government intends to make India a global manufacturing hub, and increase the share of the manufacturing sector to 25%. The program represents an attitudinal shift in how India relates to investors; not as a permit-issuing authority, but as a true business partner. While the vision of "Make in India" is laudable, turning it into reality would be a tall task. Thus, we expect India to realize the target of 25% share in manufacturing at best by 2025. The manufacturing sector would retain the current share of 18% by FY16, reach the level of 20% by FY19 and achieve 22% by FY22. In order to achieve this, Dun & Bradstreet expects the manufacturing investment to grow from around US\$ 112 bn in FY14 to US\$ 188 bn in FY20 and further to US\$ 483 bn in FY25.

Employment in the informal manufacturing sector

Close to 81% of all employed persons in India make a living by working in the informal sector, with only 6.5% in the formal sector and 0.8% in the household sector. Among the five South Asian countries, informalisation of labour is the highest in India and Nepal (90.7%), with Bangladesh (48.9%), Sri Lanka (60.6%) and Pakistan (77.6%) doing much better on this front. In fact, formal employment in Bangladesh is the highest in the region at 13.5%, but it also has high household employment at 26.7%, says a new report by the International Labour Organisation. Globally, two billion people – more than 61% of all employed people – work in the informal economy, says the report, adding that 93% the world's informal employment is in emerging and developing countries, with the level of education seen as a key factor. Agriculture is the sector with the highest level of informal employment (93.6%) around the world. The industry (57.2%) and service (47.2%) sectors are relatively less exposed to informality, especially the service sector in the Arab States and Asia and the Pacific.

Productivity in the informal manufacturing sector

It is true that the labour productivity levels are not satisfactory, but informal sector exhibits satisfactory levels of capital productivity, indicating efficient use of scarce capital resource. While the organised segment

contributes about 71 per cent of the total manufacturing output, the unorganised segment provides 66 per cent of total manufacturing employment in the country in 2011-12 (calculated from National Accounts Statistics and NSSO, 2014). This points towards low productivity of the segment which provides employment to a big majority of workers. The slow growth of Indian manufacturing is a concern for many observers of the Indian economy, and India's manufacturers have long performed below their potential. Although the country's manufacturing exports are growing, its manufacturing sector generates just 16% of India's Gross Domestic Product (GDP), much less than the 55% from services. Since its liberalisation, India has undertaken many trade reforms to increase its global integration, and the country has invested in domestic infrastructure projects to improve its regional connectivity.

Economic reforms have, thus, increased dualism in manufacturing, both by increasing the difference in efficiency between formal and informal firms and by increasing the efficiency gap between the most efficient firm and the average firm in both the formal and informal sectors. Surprisingly, even the withdrawal of reservation policies of the small-scale sector, a set of reforms that many believed would allow informal firms to catch up with formal firms, has in fact had the opposite effect, exacerbating the differences in productivity between informal and formal firms.

Conclusion

The current economic situation, which resembles a transitional phase, has created diverse currents of economic trends. On one hand there has been a general slowdown of the factory sector, and on the other hand there has been considerable opening up of the economy. It is observed that the capital productivity in the informal sector is higher than the factory sector in various product lines and it is surpassing the factory sector in more and more product lines in this respect over time. One of the major problems faced by the informal units is that most of them operate without any legal status. This leads to their harassment by local administration on one hand and inaccessibility of many facilities on the other. In fact, even their existence is not officially acknowledged. As a concluding comment it must be pointed out that the objective of the policy package should be to integrate the informal sector progressively with the national economy. To sum up, it may be commented that the present study looked into various aspects of the informal manufacturing sector in India at the regional level, with a special attention to the aspects of employment, growth and productivity levels.

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