

## India Panel

Ratna M. Sudarshan, ISST

*What are the key recent trends in the labor markets, especially informal labor markets? What categories of informal workers or types of informality (high-end vs. low-end, voluntary vs. involuntary) are growing or shrinking? What is driving these trends? **What are the development impacts of these trends? on poverty? inequality? productivity?***

The labour market trends discussed are a consequence of the chosen growth process and organization of production.

- Impact on poverty: Over the last few years of high growth rates in India some islands of prosperity have been created; areas of poverty and economic stagnation have stayed that way. Very recently data collected from a pilot survey conducted as a precursor to the proposed BPL survey suggests that only a quarter of the rural population is clearly not poor and can be 'automatically excluded' from a measure of poverty. This is similar to the picture offered by the National Commission on Enterprises in the Unorganised Sector (77 % of the population were living on less than Rs 20 per day – 2004/5 data). Debate on poverty numbers and trends remains as central as it has always been in Indian economic discussions. While there may be no linear relationship between labour market trends associated with increasing informality and poverty outcomes, there is equally no clear evidence that the official approach to tackling poverty, which is redistributive, has had much impact. It is often argued that for example some workers losing jobs because of financial recession or organizational restructuring or loss of export markets were able to access work in domestic markets or on public works (MGNREGA) which mediated the poverty outcome. But in evaluating the possible role of a redistributive programme such as MGNREGA at a national level, it needs to be kept in mind that the maximum possible earning from this programme is well below the minimum and entry level earning in any formal sector job.
- Impact on inequality: There is a little more consensus that inequality has increased. Trends in labour force participation suggest an increase in informality within the organised sector, at both the lower (outsourcing, contract workers) and upper income end (consultants). The activities that are outsourced or the work that is shifted from regular to contractual employment is at the less skilled, low end of the spectrum; so these trends are clearly associated with increasing inequality within the industrial sector, with the most highly skilled

individuals gaining greater security and wealth with the lower end becoming increasingly more insecure. It can also be noted that there is an increasing trend towards outsourcing development activities to NGOs or creating a class of low end contract workers to provide health and education services. The same processes of increasing informal workers and increasing inequality can be seen within the services and social sector therefore. Regional imbalances with poverty concentrated in some locations have been documented. Persistent chronic poverty is associated with radicalization of economic conflict; having 'no marketable skills other than being a wage labour' is one of the distinguishing characteristics of households in chronic poverty.

- Impact on productivity: Informality is associated with lower productivity for a number of reasons, and the literature gives such reasons as economies of scale not used; incentive to stay small to avoid tax, etc; employing low productivity workers; reduced capital intensity; inefficient organization design; not being registered can reduce access to government services; limited access to courts; greater exposure to corruption; and hence with lower growth rates. On the positive side, increased labour flexibility also associated with informality may be conducive to generating stronger entrepreneurship.

Given the Indian context – large labour force, young population, high levels of poverty and inequality – a growth path that is inclusive and avoids what the recent ADB Asia 2050 report calls the 'middle income trap' is the only kind of growth path that holds the prospect of long term sustained growth. In other words conventional discussions on productivity that focus on economies of scale, capital investment, and a highly skilled labour force must be substituted by discussions that place employment, skill formation at all levels, green production processes and gradual formalization at the centre. It may be correct to state that informality is associated with lower productivity – but simply creating a formal structure (rules, regulations) will not enhance productivity; a building up of skills and creativity in innovative ways is needed and formal structures have been weak on these fronts.

- Drivers: A striking feature about informality in India is that of a substantial informal sector that has been with us for decades. So we need to ask not just the question of what is it that is generating informality in the economy, but also what is it about the economy that sustains informality? There has been much thought given to what needs to happen within the informal segment in order to move towards greater formalization – recognition, registration, certification, giving legal status, complying with labour laws, etc. Much less attention has

been given to what needs to happen within the formal segment of the economy to allow formalization of the informal.

Informal employment is kept high because of barriers to entry into formal or organized work. 'Formal' includes all government services and public sector organizations; large scale industry; plantations. The shape of the formal sector is matched by a small segment of the population that has the required credentials – levels of education, technical training and networks – that enable them to enter this arena. Most of the population is not able to access jobs in the formal sector. To the extent that formal work is associated with greater security and stability of income, it is preferred by all workers. To reduce informality, the shape of the formal needs to change: and is not a matter of coaxing the informal into the present shape of formality. The first step is undoubtedly strengthening the skill and education status of informal workers but a parallel step is recognizing and certifying the skills that do exist, and being open to multiple pathways, which requires substantial shifts in current institutional norms and frameworks (eg paths to teacher certification).

There are social as well as economic barriers to formalization that need to be recognized. This is all the more so when talking of women. So for example –those who sustain and reinforce social norms are simply unwilling to stand by while these norms change. (SEWA training to women masons; attempts to give traditional birth attendants certification). Moreover production organization may be such that it is constructed by and for men and does not adapt to the needs or preferences of women. Very little thought is given to managing care responsibilities while also being in paid work. It is therefore not surprising to see that over half of all non-agricultural women workers are home based.

For the greater part of the economy the informal- formal divide is a horizontal one with the formal placed above the informal, and not a vertical split. Formalisation as a way of enhancing income security, conditions of work and hence reducing inequality and poverty and enabling higher productivity is thus inherently a matter of development trajectory. Given the present focus on high growth rates with inclusion addressed through redistributive measures the development impact on aggregate measures of poverty may in theory be positive, but addressing inequality and raising productivity at all levels requires stronger focus on processes that will themselves change the nature of the formal economy.

So to sum up: there is increasing informality in employment in India; there has always been a large informal sector. There may have been some reduction in poverty, through

redistributive efforts, but the level of poverty is so high that this is only a small dent. Inequality is increasing. Productivity is constrained, not by the fact of informality but by the weakness of the skill building and creativity enhancing effort.