

Unit 19

Formal Sector

Contents

- 19.1 Introduction
- 19.2 Comparison between Formal/Organised and Unorganised Sectors
- 19.3 Employment Growth in Formal Organised Manufacturing
- 19.4 Characteristics of Formal Sector Employment in the Post Reform Period
- 19.5 Regional Variation in Organised Industrial Employment in India
- 19.6 A Case Study of Andhra Pradesh:
- 19.7 Conclusion
- 19.8 Further Reading

Learning Objectives

- after studying this unit, you will be able to
- compare between the formal/organized and the unorganized sectors
- discuss the employment growth in formal/organized manufacturing.
- describe the regional variation in organized industrial employment in India
- discuss case study of Andhra Pradesh in the context of characteristics of the formal sector of employment

19.1 Introduction

The urban formal sector consists of the organised sector, and can be defined as the sector consisting of activities carried out by the corporate enterprises and the Government at the Central, State and Local levels, solely with the help of wage paid labour which in a great measure is unionised.

Official statistics regarding the formal sector is available through data on the organised sector. This comprises of enterprises and information (e.g. statistical data) on their activities that are collected on a regular basis (e.g. on registered manufacturing units in the urban areas of India).

The manufacturing units are all manufacturing, processing, repair and maintenance services registered or not registered under the Factory Act 1948; and this pertains to the organised sector. That is, factories employing 10 or more (or less than 10) workers, and using power, or employing 20 or more (or less than 20 workers without power), in the reference year, belong to the registered manufacturing sector. Enterprises covered by the Annual Survey of Industries (ASI), Central Statistical Organisation, fall under the purview of organised employment of the formal sector.

In India, employment was almost stagnant during the pre-liberalisation decade at the national level and experienced negative growth in the Eastern and the Western regions. The industrially developed states recorded stagnant employment while the industrially underdeveloped states showed a significant employment growth during this period. However, during post-liberalisation, all the regions experienced a marked acceleration in the employment while it was more pronounced in AGRIND or agriculture related industries in the Eastern, the Western and the Southern regions. The industrially developed states showed more pronounced acceleration in the employment in both AGRIND--agriculture related and NAGRIND--non-agriculture related industries during this period. The rise in output and increase in fixed capital in the organised manufacturing sector induced employment growth more in the Southern and Western regions during the post liberalisation decade. The industrial liberalisation accelerated employment growth in the organised manufacturing sector more in the industrially developed states such as West Bengal, Gujarat, Maharashtra, Karnataka and Tamil Nadu. However, some states like Bihar, Delhi and Punjab experienced deceleration in employment growth during the post liberalisation period.

19.2 Comparison between Formal/Organised and Unorganised Sectors

The labour force in all developing economies consists of two broad sectors, the organised and unorganised sectors. In the organised sector, the labour productivity is likely to be high, incomes even in unskilled category are relatively high and conditions of work and services are protected by labour legislations and trade unions

The major comparisons between these two sectors can be summed up as follows –

- 1. The Market Structure:** The large manufacturing firms in the formal, organised sector operate in markets where prices are controlled by few sellers, which are protected from

foreign competition by high tariffs. They sell products mainly to middle and upper income groups. On the other hand the unorganised sectors consist of a large number of small producers operating on narrow margins in highly competitive markets. The products are sold to low-income groups.

2. **Credit Facilities:** The organised sector has greater access to cheap credit provided by various financial institutions while the unorganised sector often depends on the money-lenders who charge a high rate of interest.
3. **Technology:** The formal organised sector uses capital-intensive technologies and imported technology while the unorganised sector uses mainly labour intensive and indigenous technology.
4. **Role of Government:** The organised sector has a privileged position as far as the Government is concerned because it has an easy access to and influence over Government machinery; it can build lobbies and pressurize the Government on an issue, while the unorganised has no political pull.
5. **Protection:** Lastly, the organised sector is protected by various types of labour legislations and backed by strong unions. The unorganised sector is either not covered by labour legislation at all or is so scattered that the implementation of legislation is very inadequate or ineffective. There are hardly any unions in this sector to act as watch dogs.

19.3 Employment Growth in Formal Organised Manufacturing

During the 1980s, employment in the organised sector was virtually stagnant, which had substantially increased in the 1990s. Between 1980-81, and 1990-91, employment in organised manufacturing grew at the rate 0.53 percent per annum. In the next five years, 1990-91 to 1995-96, the growth rate was much higher 4.03 percent per annum, comparing favourably with the growth rate achieved in the 1970s (about 3.8 percent per annum between 1970-71 and 1980-81). In the period 1990-91 to 1997-98, the growth rate of employment was 2.69 percent, well above the growth rate achieved in the 1980s and higher than the growth rate of the labour force.

Effect of the Economic Reforms on the Formal Sector:

The marked acceleration of employment growth according to some scholars in the formal sector, in organised activities, can be attributed to the process of major economic reforms that was initiated in India in 1991. It has been pointed out that the favourable effects in employment was

due to greater labour flexibility and increased trade orientation to changes in the structure of industries in favour of labour intensive industries and techniques of production (Singh1993, Papola 1994).

On the other hand, it has been also pointed out by scholars that in some other ways the new economic policy is expected to have adverse effect on industrial employment. For instance, economic reforms have resulted in increased competition, improved access to foreign technology and imported capital goods. This has resulted in a drive by industrial firms towards the adoption of advanced technology, which is likely to lead to increasing capital intensity of production (Ghose1994). Also, as competition intensifies, industrial firms may try to save cost and become more competitive by cutting down on employment, particularly those firms (e.g. public sector units) that are characterised by overstaffing. Many scholars therefore are advocates of this pessimistic viewpoint of economic reforms on the formal sector (Mundle, 1992, 1993; Deshpande 1992; Bhattacharya and Mitra 1993; Mitra 1993; Agarwal and Goldar 1995; Kundu 1997), and point out to the fact that the adverse effects may be so strong that they may outweigh the favourable effects of the economic reforms in the long run.

19.4 Characteristics of Formal Sector Employment in the Post Reform Period

1. Public Sector, Private Sector and Joint Sector Growth in Employment

Table 1. Growth in Employment in Organised Industry, Private and Public Sectors

	Employment (000)				Growth Rate (Percent per Annum)		
	1973-74	1980-81	1990-91	1997-98	1973-80	1980-90	1990-97
Public Sector	1365	2049	2323	2388	5.971	1.265	0.391
Private and Joint Sector (including unspecified)	4455	5666	5839	7538	3.495	0.302	3.715
Aggregate ASI (including electricity)	5820	7715	8163	9926	4.108	0.566	2.834

Source: ASI

The above table presents a comparison of employment growth rate between public sector and private sector (including joint sector) factories. It can be discerned from the above table that in the 1970's employment grew rapidly in both the public and private sector factories. There was a sharp deceleration in employment growth in the 1980's in both the public and private sector factories. In the 1990's the growth rate of employment in the public sector factories has come down further. It was only 0.4 percent per annum between 1990-91 and 1997-98. By contrast, the growth rate of employment in private sector factories has recovered and surpassed the growth rate prevailing in the 1970's with the consequence that almost the entire increase in employment in organised manufacturing that has taken place in the 1990's can be accounted for by public sector factories.

2. Distribution of Employment by Size Class of Factories

Table 2. Distribution of Employment by Factory Size

Factory Size Class	Distribution of Employment (Percent)				Growth Rate (Percent per Annum)		
	1973-74	1980-81	1990-91	1997-98	1973-80	1980-90	1990-97
0-49	14.4	13.8	17.5	16.8	3.477	2.983	2.201
50-99	8.2	9.0	10.8	13.1	5.502	2.416	5.686
100-199	9.4	9.2	10.7	12.9	3.789	2.096	5.652
200-499	13.1	12.1	13.5	19.0	2.934	1.673	7.979
500-999	11.6	9.7	12.0	13.6	1.481	2.729	4.711
1000-1999	12.8	13.7	10.1	9.4	5.124	-2.454	1.815
2000-4999	16.7	15.9	9.5	10.0	3.381	-4.482	3.649
5000+	13.8	16.6	15.9	5.2	6.892	0.134	-12.438
TOTAL	100.0	100.0	100.0	100.0	4.108	0.566	2.835

Source: ASI

The distribution of employment by size class of factories shows that there was a marked change in the size structure in the 1980s and more so in the 1990s. The size class 50-500 employment gained, while the size classes 2000-4999 and 5000+ lost heavily. Since the factories in the lower employment size classes are more labour intensive, these changes in size structure had a favourable effect on employment growth. The size class 5000+ is the most capital intensive and least labour intensive and the sharp decline in the relative share of this size class in the 1990s and the increase in the relative shares of the size classes 50-99, 100-199 and 200-499 must have made a significant contribution to employment growth in this period (Goldar, 2000).

In this context, it can be said that the economic policy regime has a major influence on the size structure of industries in the formal sector. In the early 1960s factory employment was heavily concentrated in very large establishments (Little1986). The share of small and medium sized factories was relatively small. This imbalance in the structure of the manufacturing sector was largely a consequence of the economic policies of the Government.

3. Growth Rates of Employment and Gross Value Added

Table 3: Growth Rates in Employment and Gross value Added: Two-Digit Industries
(Percent per Annum)

Industry Code	1980-90	1990-97	1980-90	1990-97
20-21	-1.58	2.70	12.03	7.39
22	3.71	2.95	8.48	7.83
23	-3.17	0.58	2.63	0.26
24	3.02	2.67	13.79	8.35
25	-3.00	1.06	-4.24	6.56
26	5.62	11.37	14.63	10.44
27	-1.79	1.80	5.71	-6.74
28	0.45	2.30	5.54	3.54
29	5.91	2.24	11.67	10.46
30	1.16	5.22	10.30	9.83
31	3.73	4.72	14.31	5.82
32	2.03	0.30	11.54	4.29
33	0.73	0.91	6.55	11.15
34	1.58	2.83	3.06	9.98
35+36+39	3.54	2.56	8.62	7.21
37	-0.18	2.10	7.13	9.39
38	2.81	7.14	11.96	18.98
Manufacturing	0.53	2.69	8.67	7.4

Two Digit Industry Code:

20-21:food products; 22:Beverages, tobacco; 23:cotton textiles; 24:wool, silk, man made fibre textiles;25: jute and other textiles; 26: textile products; 27: wood and wood products; 28: paper and paper products; 29: leather and leather products; 30: chemical and chemical products; 31: rubber, plastics and petroleum products; 32: non-metallic mineral products; 33: basic metal and alloys; 34: metal products and parts; 35-36: machinery and equipment; 37: transport equipment; 38: other manufacturing industries and 39: repair of capital goods.

Protection, investment incentives, credit control and promotion of industry in the public sector discriminated against the small and favoured capital intensive, large scale establishments (Little 1986). The change in the size structure that has taken place in the 1980s and 1990s, a decline in the relative share of big units and a rise in the share of small and medium size factories is arguably a correction of the structural imbalance prevailing earlier.

Since the imbalance in the size structure was largely a consequence of economic policies, the correction that has taken place in the last two decades may be attributed, at least in part, to changes in economic policy, specially in liberalisation of industrial and trade policies.

It is seen that the growth rate of employment increased in the 1990s in most industries. There was almost across-the-board acceleration in employment growth. As against that, the growth rate of value added declined after 1990 in a majority of industries even at the aggregate level. Therefore it appears that some common factors have favoured employment growth in a large number of industries in the post reform period even though output growth has not accelerated.

4. Growth Rate in Real Wages (Product wage) and Man days per Employee

Table 4. Growth Rates of Real Wages and Man day per Employee: Two Digit Industries
(Percent per Annum)

Industry (code)	Real Wages Growth Rate		Man day per Employee Growth rate	
	1980-90	1990-97	1980-90	1990-97
20-21	10.74	1.75	5.24	0.59
22	2.17	1.61	0.47	0.75
23	3.64	-1.61	0.72	-0.11
24	6.26	3.32	0.41	-0.09
25	1.42	4.38	0.30	-0.44
26	3.25	0.77	0.26	-0.05
27	4.90	-7.29	0.54	0.56
28	2.48	3.29	0.34	0.00
29	0.35	6.38	0.15	0.05
30	6.70	1.04	0.79	0.00
31	3.92	5.04	1.03	0.19
32	2.56	3.53	-0.15	1.39
33	1.74	5.12	0.33	-0.20
34	0.76	5.08	0.29	0.31
35+36+39	4.17	3.04	0.38	0.05
37	4.10	5.64	0.21	-0.40
38	7.83	5.95	-0.36	-0.37
Manufacturing	4.84	2.08	1.11	0.14

Two Digit Industry Code:

20-21:food products; 22:Beverages, tobacco; 23:cotton textiles; 24:wool, silk, man made fibre textiles;25: jute and other textiles; 26: textile products; 27: wood and wood products; 28: paper and paper products; 29: leather and leather products; 30: chemical and chemical products; 31: rubber, plastics and petroleum products; 32: non-metallic mineral products; 33: basic metal and alloys; 34: metal products and parts; 35-36: machinery and equipment; 37: transport equipment; 38: other manufacturing industries and 39: repair of capital goods.

It is also seen that in 1980s employment declined in four two-digit industries: 20-21: food products, 23: cotton textiles, 25: jute textiles and 27: wood products. These industries are labour intensive and accounted for 41 percent of the total manufacturing employment in 1980. In all these cases, the downward trend in employment was arrested in the 1990s and reversed.

The above table reveals that the growth rate of real wages in aggregate manufacturing declined significantly in the 1990s, and this occurred also in a majority of industries.

Furthermore, the inter-industry pattern of changes in rates of growth in employment and real wages, an inverse relationship can be seen between the two: the extent of acceleration in employment growth is generally higher in those industries in which there has been a greater decline in the growth rate of real wages.

Nagaraj (1994) and Bhalotra (1998) have laid considerable stress on the increase in man days per employee as a cause of sluggish employment growth in 1980s. The above table shows, however, that the increase in man days per employee was rapid only in the case of food products industry; for the rest, the rate of increase was not high. At the aggregate level, the rate of increase in man days per employee was 1.11 percent per annum, which, to a large extent was due to the increase that took place in food products industry. Thus, it seems Nagaraj and Bhalotra have given undue emphasis on this factor as a cause of jobless industrial growth in 1980s. Also, the change in the growth rate of man days per employee between the two periods is small for most industries (as can be seen from the table above) and this cannot be a major cause of the acceleration in employment growth in 1990s.

Reflection and Action 19.1

From the above section you came to know about the organized and the unorganized sectors. In the area where you live find out about its industrial growth and manufacturing unit(s). Write a report of about two pages on the “Organised and the Unorganized Sector” in your area or surrounding area of your city/town or village.

Discuss your report with those of other learners at your Study Center.

19.5 Regional Variation in Organised Industrial Employment in India

1. Pre-Liberalisation Period (1980-81-1991-92)

Average annual growth rate in organised industrial employment in India during this decade was very small, about 0.6 percent per annum. However, there were four states in which the absolute level of employment declined during this period: Bihar, West Bengal, Gujarat and Maharashtra. The biggest single decline was in the state of West Bengal, which accounted for 75 percent of the total decline in these four states. The states showing not marginal but significant increase in employment were Haryana, Punjab, Andhra Pradesh and Tamil Nadu, while Uttar Pradesh, Rajasthan and Madhya Pradesh also showed some gains compared to their industrial employment level in 1980-81.

At the regional level, the biggest gainer was the Southern region, due mainly to Andhra Pradesh and Tamil Nadu, while the biggest loser was the Eastern region due to West Bengal. Indeed, the major gaining as well as the losing states were amongst industrially developed states: Tamil Nadu, Karnataka, Haryana, Punjab and Delhi were the gaining states, while the major losing states were also the ID (industrially developed) states of West Bengal, Gujarat and Maharashtra. The IUD (industrially underdeveloped) state that showed major gain was Andhra Pradesh, though Uttar Pradesh, Rajasthan, and Madhya Pradesh and even Orissa showed some gain.

The conflicting movement amongst ID (industrially developed) states left the size of their total industrial workforce nearly unchanged while that of the IUD (industrially underdeveloped) states distinctly improved.

The ID (industrially developed) states lost in employment in agriculture-related industries (AGRIND) but gained in non-agriculture related industries (NAGRIND). The IUD (industrially underdeveloped) states on the other hand showed stagnation in agriculture-related industries, but distinct gain in non-agriculture related industries.

Which industry groups were mainly responsible for the significant decline in 3ID states of West Bengal, Gujarat and Maharashtra? In West Bengal the decline was across-the-board in all the 2-digit industry groups with the sole exception of beverages, tobacco and tobacco products (22).

In Gujarat, the decline was confined to four industry groups: food products (20-21), beverages, tobacco and tobacco and tobacco products (22), cotton textiles (23), wood and wood products, furniture and fixtures (27), while the dominated declining industry being cotton textiles (23). This affected the over all industrial employment in the state adversely.

In Maharashtra, the decline was relatively more widespread: in food and food products (20-21), cotton textiles (23), wool, silk and synthetic fibre textiles (24), wood and wood products, furniture and fixtures (27), paper and paper products (28), basic metals and alloy industries (33), metal products and parts (37), though here also cotton textiles (23) recorded the biggest decline.

There was an overall decline in AGRIND (agriculture related industries), in the order of about 2.5 lakh employees between 1980-81 and 1991-92. This was due to the overwhelming decline in the three states of Maharashtra, Gujarat and West Bengal. In Maharashtra, employment in AGRIND declined by 1.4 lakh, in Gujarat by 1.1 lakh and in West Bengal by 1.3 lakh. However, this decline in AGRIND was not a widespread phenomenon across the country. In the Southern region, employment in AGRIND increased by about a lakh in each of the two states of Andhra Pradesh and Tamil Nadu.

Table 5: Regional Distribution of Employees in Organised Manufacturing in India

(In percent)

State	1980-81			1991-92			1997-98		
	Mfg (2-3)	AGRIND	NAGRIND	Mfg (2-3)	AGRIND	NAGRIND	Mfg (2-3)	AGRIND	NAGRIND
AS	1.68	1.47	0.20	1.64	1.31	0.33	1.50	1.09	0.41
BH	4.72	1.28	3.44	4.39	0.65	3.74	2.98	0.50	2.48
OR	1.48	0.60	0.88	1.76	0.61	1.16	1.63	0.54	1.09
WB	13.20	6.52	6.67	9.49	4.30	5.19	8.69	4.79	3.90
<i>ER</i>	<u>21.26</u>	<u>9.95</u>	<u>11.31</u>	<u>17.48</u>	<u>6.95</u>	<u>10.53</u>	<u>14.98</u>	<u>7.00</u>	<u>7.97</u>
DL	1.66	0.79	0.87	1.91	0.80	1.11	1.45	0.61	0.83
HR	2.28	0.83	1.45	3.14	1.11	2.03	3.16	1.03	2.12
PNJ	2.89	1.42	1.47	3.87	1.87	2.00	3.73	1.83	1.90
UP	9.23	6.03	3.20	9.07	4.62	4.45	7.66	3.94	3.72
<i>NR</i>	<u>16.61</u>	<u>9.38</u>	<u>7.23</u>	<u>18.65</u>	<u>8.72</u>	<u>9.93</u>	<u>16.85</u>	<u>7.89</u>	<u>8.96</u>
AP	8.73	6.44	2.29	10.99	7.56	3.43	11.18	7.72	3.46
KT	5.13	2.74	2.39	5.34	2.35	2.99	6.63	2.82	3.81
KRL	3.59	2.65	0.94	3.49	2.25	1.24	3.81	2.54	1.27
TN	10.24	5.63	4.62	12.54	6.59	5.95	13.62	7.52	6.10
<i>SR</i>	<u>28.01</u>	<u>17.74</u>	<u>10.27</u>	<u>32.71</u>	<u>18.99</u>	<u>13.72</u>	<u>35.70</u>	<u>20.85</u>	<u>14.85</u>
GJ	9.71	6.03	3.69	8.75	4.03	4.73	9.30	3.70	5.61

MP	3.89	2.12	1.78	4.27	2.04	2.24	4.32	1.79	2.53
MH	18.21	8.87	9.34	15.05	6.43	8.62	15.40	6.21	9.20
RJ	2.11	1.03	1.08	2.75	1.22	1.53	2.75	1.31	1.44
WR	<u>34.12</u>	<u>18.12</u>	<u>16.01</u>	<u>31.17</u>	<u>13.83</u>	<u>17.34</u>	<u>32.48</u>	<u>13.21</u>	<u>19.27</u>
ID States	63.32	32.83	30.50	60.09	27.48	32.62	61.98	28.51	33.47
IUD States	35.43	21.62	13.81	38.36	20.26	18.12	35.83	19.43	16.40
16 States	98.76	54.45	44.31	98.45	47.74	50.74	97.81	47.94	49.87
ROI	1.24	0.73	0.51	1.55	0.75	0.77	2.19	1.00	1.19
INDIA	100.00	55.18	44.82	100.00	48.49	51.51	100.00	48.94	51.06

Note: Mfg (2-3) sector, these figures may not add upto total due to rounding; AGRIND – agriculture related industries; NAGRIND – Non-agriculture related industries, AS – Assam; BH-Bihar; OR-Orissa; WB-West Bengal; ER – Eastern Region; DL – Delhi; HR – Haryana; PNJ – Punjab; UP-Uttar Pradesh; NR – Northern Region; AP – Andhra Pradesh; KT – Karnataka; KRL – Kerala; TN; Tamil Nadu; SR – Southern Region; GJ – Gujarat; MP – Madhya Pradesh; MH – Maharashtra; RJ – Rajasthan; WR – Western Region; ID Industrially Developed; IUD – Industrially Underdeveloped; ROI – Rest of India

Even a state like Orissa recorded a 40,000 increase during the decade. The agriculture related industries that showed significant growth in employment in Andhra Pradesh as well as in Karnataka were wool, silk and synthetic fibres (24), cotton textile products (25), and leather and leather products (29); in Tamil Nadu they were jute, hemp and mesta industry (25), cotton textile products (26), and leather and leather goods (29) with cotton textiles (23) to a smaller extent. Thus, the tremendous decline in cotton textile industry (23) in Maharashtra and Gujarat was not seen in Tamil Nadu, but the contrary.

Unlike in AGRIND, there was an overall increase in employment in NAGRIND (non-agriculture related industries), during this decade by nearly 7 lakh employees. The only exception was in the two states of West Bengal and Maharashtra, both ID states. In these two states, which together accounted for 31 percent of the total industrial employment in 1981 (of which over half, 16 percent, was in non-agriculture related industries), the employment in non-agriculture industries declined by 79,000 of which West Bengal alone accounted for 69,000.

While in West Bengal the decline was in all NAGRIND groups, in Maharashtra, it was confined to basic metal industries (33), metal products and parts (34), machinery, machine tools and parts (35, 36) and transport equipment and parts (37).

Northern states like Haryana and Uttar Pradesh also showed decline in these industries. But metal products and parts (34), machinery, machine tools and parts (35, 36) and transport equipment and parts (37) recorded a distinct rise in employment in the Southern states.

Thus, while the group of employment in non-agricultural related industries was not very high during the decade (1.77 percent a year), the decline was only in the two states of Maharashtra and West Bengal. West Bengal stands out as the only state that registered all round decline in industrial employment in the decade of the 1980s; the reasons for which may be quite state specific.

All in all, both in agriculture-related and non-agriculture related industries, the decline in employment in the 80s appears to have been quite state specific. No across the board explanation can be provided for this.

2. Post-Liberalisation Period (1991-92-1997-98)

The growth in employment in the organised manufacturing sector in India during the post-liberalisation period was distinctively higher, 4.15 percent per annum as against 0.6 percent in the preceding decade.

All states except Bihar and Delhi recorded positive growth. The states that recorded higher than the all India growth rate was Karnataka, Kerala, Tamil Nadu, Haryana, Gujarat, Andhra Pradesh, Rajasthan and Maharashtra.

The Southern states recorded the highest growth rate (5.88 percent), the Western region coming next (4.7 percent), with the Northern and Eastern regions far behind (2.2 and 1.5 percent respectively). The result was that the Southern region, which had 28.01 percent of the total industrial labour force in 1981 and 32.71 percent in 1991-92, came to have 35.7 percent of the total industrial labour force by 1997-98. The Western region's share declined from 34.12 percent in 1980-81 to 32.48 percent in 1997-98, though this was a slight improvement over 31.17 percent to which the share had declined in 1991-92. The share of the Northern region remained unchanged. Clear and sharp decline was seen in the Eastern region which had 21.26 percent in 1980-81 but declined to 14.98 percent in 1997-98, despite the fact that both Orissa and Assam recorded 3.69 percent and 3.33 percent growth rates during the post liberalisation period. The

reason for the worsening position of the eastern region was the sharp decline of West Bengal as an industrial state.

Table 6: Annual Compound Growth Rate of Employment in the Organised Manufacturing Sector of the States and Regions of India during 1980-81 to 1997-98

Region	1980-81 to 1997-98	1980-81 to 1991-92	1991-92 to 1997-98	Col 4-Col 3
(1)	(2)	(3)	(4)	(5)
AS	1.31	0.47	3.33	2.86
BH	-0.72	0.04	-2.51	-2.55
OR	2.62	2.17	3.69	1.52
WB	-1.41	-3.00	2.46	5.46
<i>ER</i>	-0.63	-1.51	1.50	3.01
DL	1.79	2.58	-0.04	-2.62
HR	3.48	2.70	5.33	2.63
PNJ	3.43	4.07	1.92	-2.15
UP	0.81	0.61	1.27	0.66
<i>NR</i>	1.97	1.84	2.28	0.44
AP	3.05	2.31	4.82	2.51
KT	2.96	1.08	7.55	6.47
KRL	2.24	0.48	6.56	6.08
TN	3.35	2.39	5.68	3.29
<i>SR</i>	3.07	1.91	5.88	3.97
GJ	1.05	-0.61	5.09	5.70
MP	2.44	1.97	3.58	1.61
MH	0.75	-0.73	4.36	5.09
RJ	3.47	2.96	4.68	1.72
<i>WR</i>	1.34	-0.04	4.70	4.74
ID States	1.42	0.11	4.61	4.50
IUD States	1.87	1.34	3.13	1.79
INDIA	1.63	0.60	4.15	3.55

Note: AS – Assam; BH-Bihar; OR-Orissa; WB-West Bengal; ER – Eastern Region; DL – Delhi; HR – Haryana; PNJ – Punjab; UP-Uttar Pradesh; NR – Northern Region; AP – Andhra Pradesh; KT – Karnataka; KRL – Kerala; TN; Tamil Nadu; SR – Southern Region; GJ – Gujarat; MP – Madhya Pradesh; MH – Maharashtra; RJ – Rajasthan; WR – Western Region; ID Industrially Developed; IUD – Industrially Underdeveloped.

This state had incidentally more industrial workers than the entire Northern region and had the second highest industrial labour force next only to Maharashtra in 1980-81 (13.2 percent) saw a decline to its share to 8.69 percent by 1997-98 thus becoming the 5th among the states, Tamil Nadu now taking its earlier position. In fact, the absolute decline in the size of West Bengal's labour force, which occurred in the 1980s, could not be made up in the 1990s; its rate of growth being lower than even Orissa's and Assam's. There is a clear indication of industrial shift of the formal labour force to the south of the Vindhyas.

During this period, there has been a slight increase in the share of the agriculture related industries (AGRIND) of India. Two states Bihar and Delhi, registered an absolute decline in the labour force in this sector. There was a near stagnation or a very small increase in a few other states, like Assam and Uttar Pradesh. The real large increase however was in the states of West Bengal and in the states of the Southern and Western region. In the Western region, the total number of employees increased by about 1.5 lakh, in West Bengal alone by more than a lakh, and in the four Southern states by about 4.5 lakh. Indeed the Southern region alone showed significant rise in the share of total employees in this sector, from 18.99 percent to 20.85 percent in seven years. The result was that the share of this labour increased in the ID states and declined in the IUD states.

On examining the changes by 2-digit industry groups for AGRIND, it becomes clear that the employment in food and food products industries (20-21), registered a positive growth in all such areas except Bihar, and all the states of the Northern region. Employment in beverages, tobacco and tobacco product industries (22), registered an increase in West Bengal, Orissa, Uttar Pradesh, Rajasthan, Maharashtra, Andhra Pradesh and Tamil Nadu; and registered a decline in Haryana, Delhi, Gujarat, and Madhya Pradesh. In the remaining states, it was either essentially stagnant or non-existent. Employment in cotton textile industry (23), declined in all the four states of Uttar Pradesh, Delhi, Rajasthan and Gujarat, while registering an increase only in Madhya Pradesh and Kerala; elsewhere there was clear stagnation. Employment in wool, silk and synthetic textile industry (24) showed a decline in Bihar, West Bengal, Uttar Pradesh, Delhi, Rajasthan and Gujarat while it recorded a distinct rise only in Madhya Pradesh, Andhra Pradesh and Kerala. In the other states, it was stagnant. The jute, hemp and mesta textile industry (25), registered increase in three Eastern states except Assam, and in Tamil Nadu while it distinctly declined in Andhra Pradesh. The employment in the textile product industry (26), recorded an increase only in Orissa in the eastern region; in Delhi, Haryana and Uttar Pradesh in the Northern region; and in almost all states in the Western and Southern regions. Employment in wood and wood products, furniture, fixtures industries (27), recorded a decline in Assam, West Bengal, Delhi, Madhya Pradesh, Karnataka and Tamil Nadu, and showed an increase in Bihar, Haryana, Punjab, Rajasthan, Gujarat and Kerala. Paper and paper products industries (28), showed an increase in all the states in the Eastern region, in all the states in the Western region and in Uttar Pradesh, Kerala and Tamil Nadu. Leather and leather product industries (29), registered increase

in Haryana, Punjab and Gujarat, but declined in Orissa, West Bengal, Madhya Pradesh, Maharashtra and Andhra Pradesh.

Thus the increase in employment was mainly in food and food products industry (20-21), beverages, tobacco and tobacco products (22), and in textile products (26), in most of the states. The Western and Southern states recorded more wide spread increase.

In NAGRIND, it was seen that three states, Gujarat, Maharashtra and Karnataka, recorded widespread increase in almost all industry groups and states in the Western and Southern region recorded employment in many industry groups resulting in the highest rate of increase in the Western region, and the next highest in the Southern region. As against this, the Eastern states recorded a negative growth rate mainly because of the strong decline in Bihar and stagnancy in West Bengal. Indeed, Assam recorded a high rate of growth, with Orissa coming next; but these could not pull up the overall growth rate of the Eastern region, due to the prevailing situation in Bihar and West Bengal.

Reflection and Action 19.2

Read carefully the following section on Andhra Pradesh: Characteristic of Formal Sector Employment. Visit a local library and try to find out if there are details available of any other state (better if it is your own state; if it is not Andhra Pradesh).

Write down the details and discuss it with your Academic Counsellors, as well as the students at your study center.

19.6 A Case Study of Andhra Pradesh: Characteristics of Formal Sector Employment

The work participation rates in Andhra Pradesh had been much higher than the all India levels, though the younger age groups are engaged in education for longer periods that keep them away from labour.

Table 7: Urban Work Participation Rate

Year	Andhra Pradesh	All India
1983	34.8	34.0

1987-88	35.8	33.7
1993-94	37.6	34.7
1999-2000	34.8	33.7

Source: NSS Rounds on Employment and Unemployment (38th, 43rd, 50th and 55th)

In Andhra Pradesh, 20.5 lakh workers were in the formal sector of organised manufacturing in 1998, against a total of approximately 387.5 lakh workers. In other words, organised sector workers form only around 5.5 percent, while unorganised sector workers constitute the bulk, around 94.5 percent, of the total labour force in Andhra Pradesh. Jobs in the urban formal sectors usually provide much higher wages, and also provide greater job security and other benefits than other sectors.

Table 8: Male Female Urban Work Participation Rate: Andhra Pradesh and India

Year	Andhra Pradesh	All India
Male		
1993-94	54.4	52.0
1999-2000	51.1	51.8
Female		
1993-94	19.9	15.4
1999-2000	17.8	13.9

Source: NSS Rounds on Employment and Unemployment (50th and 55th)

Employment in the organised sectors in Andhra Pradesh increased from 12.36 lakh in 1975-76 to 20.72 lakh in 1999-2000, in the urban areas.

Table 9: Employment in the Organised Sector in Andhra Pradesh

Years	Employment (in lakh)	Period	Compound Growth Rate
1975-76	12.36	1975-76 to 1980-81	3.2
1980-81	14.46	1980-81 to 1985-86	2.2
1985-86	16.11	1985-86 to 1990-91	1.8
1990-91	17.63	1990-91 to 1995-96	1.9
1995-96	19.42	1995-96 to 1999-2000	1.6
1996-97	20.42	Source: Various Issues of Economic Survey, Government of Andhra Pradesh	
1997-98	20.51		
1998-99	20.59		
1999-2000	20.72		

The above table shows a deceleration in the growth of employment in the organised sector in Andhra Pradesh over time. In the later part of the 1990s, the growth rate was about 1.6 percent per annum. In fact, since 1996-97, increase in organised employment in Andhra Pradesh has been marginal. One of the main reasons for the lower growth of organised employment is the

slow down of the public sector employment in the 1990s, already dealt with earlier, and Andhra Pradesh is no exception to it.

In Andhra Pradesh, the public sector accounts for 70-80 percent of organised employment in the formal sector. The growth rate of public sector employment in the 1970s and 1980s was quite high. On the other hand, the private sector employment had been growing at the rate of 4.8 percent per annum in the 1990s. But the growth in the private sector has not been able to compensate the loss in the public sector.

In Andhra Pradesh, for the males, marginal increase was noticed in non-farm employment such as construction, trade and transport. The share in manufacturing has not increased over time. In case of females, rise is mainly in the services.

Unemployment and Poverty

Unemployment rate is the ratio of unemployed to the total labour force. In the urban areas of Andhra Pradesh, the unemployment rates are relatively higher than the rural areas. Again, unemployment rates are higher among the male population than the female. However, in recent years, urban unemployment in Andhra Pradesh has shown only marginal increase compared to the rural areas.

Table 10: Unemployment Rates in Urban Andhra Pradesh and India: 1983-2000

Year	USUAL STATUS				DAILY STATUS			
	Andhra Pradesh		India		Andhra Pradesh		India	
	Male	Female	Male	Female	Male	Female	Male	Female
1983	5.4	5.1	5.9	6.9	9.4	12.1	9.2	11.0
1987-88	6.4	9.0	6.1	8.5	10.1	13.2	8.8	12.0
1993-94	3.5	4.3	5.4	8.3	7.5	9.5	6.7	10.4
1999-2000	4.3	4.4	4.8	7.1	7.7	9.7	7.3	9.4

Source: Different Rounds of NSSO data.

19.7 Conclusion

Thus, while organised employment in the formal sector remained virtually stagnant in the 1980s, there has been a marked acceleration in the growth of employment in the 1990s. Acceleration in employment growth is found both at the aggregate level and for most industries; even though there had been considerable inter-regional differences. This may be partly explained by changes in the size structure in favour of small and medium sized factories. Another important

explanation for the acceleration in employment growth seems to lie in a slow down in the growth in real wages.

During the pre-liberalisation period, organised manufacturing in the urban formal sector of India experienced “jobless growth”. However, the Northern and Southern regions recorded relatively high growth of employment even during pre-liberalisation. The Eastern and the Western regions experienced a fall in employment during this period in the organised manufacturing sector. The industrially developed states experienced a stagnant employment growth while industrially underdeveloped states recorded employment growth of 1.34 percent per annum. West Bengal, Gujarat and Maharashtra registered negative employment growth while high growth was recorded by Punjab, Andhra Pradesh, Tamil Nadu and Rajasthan during this period.

During the post-liberalisation period, the employment growth was 4.15 percent per annum in organised manufacturing. The industrially developed states registered a very marked rise in employment during this period in the organised manufacturing sector. The Southern and Western regions showed a high acceleration in employment growth. Karnataka, Kerala, Tamil Nadu, Haryana and Gujarat registered employment growth by more than 5 percent during this period. All the states, except Bihar, Delhi, and Punjab experienced acceleration in employment growth during this period in organised manufacturing.

Finally, it must be said that special employment and anti-poverty programmes of the Government of India had been mostly targeted towards the rural areas. Mention must be made of the programmes that may have an impact on the urban formal sector, viz the Nehru Rozgar Yojana and Prime Minister’s Integrated Urban Poverty Eradication Programme (PMIUPEP).

The Rozgar Yojna is a scheme aimed at helping educated unemployed youth in establishing self-employed ventures, which may not necessarily be formal. The scheme was in operation in urban areas in 1991-94.

The Nehru Rozgar Yojana is aimed at creating employment opportunities through three schemes such as wage employment, micro enterprises and shelter upgradation for the urban poor. Prime Minister’s Integrated Urban Poverty Eradication Programme (PMIUPEP) was launched during 1995-96 with the specific objective of effective achievement of social sector goals, community empowerment, employment generation, and skill upgradation, shelter upgradation and environmental improvement with a multi-prolonged and long term strategy. The programme is

said to cover 5 million urban poor living in 345 Class II Urban Agglomerations, with a population of 50,000 to 100,000 lakh each. There would be a provision of Rs 800 crores as Central share for the entire programme period of five years.

19.8 Further Reading

Ahluwalia, I.J. (1991), “Productivity and Growth in Indian Manufacturing”, Oxford University Press, New Delhi.

Bhalotra, Sonia, R. (1998), ‘The Puzzle of Jobless Growth in Indian Manufacturing’, *Oxford Bulletin of Economics and Statistics*, Vol 60, No. 1, pp 5-32.

Kundu, Amitabh. (1997), ‘Trends and Structure of Employment in the 1990s: Implications for Urban Growth’, *Economic and Political Weekly*, June 14.

References

- Agarwal, R.N. and B. Goldar, (1995), 'Economic Reforms and Employment in India: Projections for the Year 2001-02', *Indian Journal of Labour Economics* Vol 38, No. 4, pp 577-95.
- Ahluwalia, I.J. (1991), "Productivity and Growth in Indian Manufacturing", Oxford University Press, New Delhi.
- Bhalotra, Sonia, R. (1998), 'The Puzzle of Jobless Growth in Indian Manufacturing', *Oxford Bulletin of Economics and Statistics*, Vol 60, No. 1, pp 5-32.
- Bhattacharya, B.B. and A. Mitra (1993), 'Employment and Structural Adjustment: A look at 1991 Census Data', *Economic and Political Weekly*, September 18, pp 1989-95.
- Deshpande, L. (1992), 'Economic Liberalisation and Labour in India', *Indian Journal of Labour Economics*, Vol 35, No. 4.
- Dutta Roy, S. (1998), 'Lags in Employment Adjustment and Inter-Industry Differentials: An Analysis Using Dynamic Inter-related Factor demand Function', Discussion Paper No. 149, Indira Gandhi Institute of Development Research, Mumbai.
- Ghosh, A.K. (1994), 'Employment in Organised Manufacturing in India', *Indian Journal of Labour Economics*, Vol 37, No. 2, April-June, pp141-62.
- Goldar, B. (2000), 'Employment Growth in Organised Manufacturing in India', *Economic and Political Weekly*, Vol. 35, No.14, April 1.
- Government of India, (1999), "Annual Survey of Industries, 1997-98: Provisional Results for Factory Sector", Central Statistical Organisation, Department of Statistics, Ministry of Planning and Programme Implementation, Calcutta (various issues).
- Kundu, Amitabh. (1997), 'Trends and Structure of Employment in the 1990s: Implications for Urban Growth', *Economic and Political Weekly*, June 14.
- Little, I.M.D. (1986), 'Small Manufacturing Enterprises in Developing Countries', *World Bank Economic Review*, Vol. 1, No.2, pp 203-35.
- Mitra, A. (1993), 'Urban Employment, Migrant Labour and Structural Adjustment', *Indian Journal of Labour Economics*, Vol. 37, No.3.
- Mundle, S. (1992), 'The Employment Effect of Stabilisation and Related Policy Changes in India, 1991-92 to 1993-94', *Indian Journal of Labour Economics*, Vol. 35, No.2, July-September, pp 227-37.
- Nagaraj, R. (1994), 'Employment and Wages in Manufacturing Industries: Trends, Hypotheses and Evidence', *Economic and Political Weekly*, Vol 29, No. 4, pp177-86.
- Nagaraj, R. (2000), 'Organised Manufacturing Employment', *Economic and Political Weekly*, Vol. 35, No. 8, September 16.

Papola, T.S. (1994), 'Structural Adjustment, Labour Market Flexibility and Employment', *Indian Journal of Labour Economics*, Vol.37, No. 1, January-March, pp 3-16.

Singh, Manmohan. (1993), 'New Economic Policy and Challenges Before the Labour Economists', inaugural address to the 34th Conference of the Indian Society of Labour economics, Jawaharlal Nehru University, published in the *Indian Journal of Labour Economics*, Vol. 36, No.1.

World Bank, (1989), 'India: Poverty, Employment and Social Services: A World Bank Country Study', World Bank, Washington DC.