



INSTITUTE FOR
HUMAN DEVELOPMENT

India Labour and Employment Report 2014

WORKERS IN THE ERA OF GLOBALISATION



ACADEMIC FOUNDATION

India Labour and Employment Report 2014

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IHD Team for the India Labour and Employment Report 2014

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India Labour and Employment Report 2014: Highlights

I. The Context

- India has witnessed an impressive GDP growth rate of over 6 per cent since the 1980s. Growth has been particularly rapid since the post-reform period of the 1990s. This high growth has contributed to a sustained increase in per capita income and a decline in absolute poverty, as well as modest improvement in standards of living. It has also brought important changes in employment conditions in the country.
- The structure of the labour market, patterns of employment growth, and labour-market institutions play an important role in shaping development patterns and outcomes. However, there is a lack of analytical documentation on these issues. The India Labour and Employment Report, planned as the first of a series of periodic publications by the Institute for Human Development (IHD), aims to fill the gap.
- The first report—**India Labour and Employment Report 2014**—provides analyses of the changes in the labour market and employment since the inception of economic reform. It explores the dynamics of these changes, by looking at labour-market institutions, different types of employment, and labour market policies. It also outlines the emerging agenda for policies and action that emerge from such analyses.

II. Labour Market and Employment Conditions in India

- Today, India is counted among the most important emerging economies of the world but employment conditions in the country still remain poor.
- Overall, labour-force to population ratio (in the age group 15 years and above) at 56 per cent is low in India compared to nearly 64 per cent for the rest of the world. The low participation in India is largely because the female labour force participation rate (LFPR) is dismally low at 31 per cent, which is amongst the lowest in the world and the second lowest in South Asia after Pakistan (though official figures are clearly underestimated).

- Even today the large proportion of workers engaged in agriculture (about 49 per cent) contribute a mere 14 per cent to the GDP. In contrast, the service sector which contributes 58 per cent of the GDP barely generates 27 per cent of the employment, and the share of manufacturing in both employment (13 per cent) and GDP (16 per cent) is much lower than in East Asian and South-East Asian countries. This unbalanced pattern of growth is at variance with not just the experience of the fast growing economies of East and South East Asia but also the economic historical experience of the present day developed countries of the West.
- An overwhelmingly large percentage of workers (about 92 per cent) are engaged in informal employment and a large majority of them have low earnings with limited or no social protection. This is true for a substantial proportion of workers in the organized sector as well. Over half the workers are self-employed, largely with a poor asset-base, and around 30 per cent are casual labourers seeking employment on a daily basis. About 18 per cent of those employed are regular workers, and amongst them less than 8 per cent have regular, full-time employment with social protection.
- Levels of education and professional and vocational skills are extremely low. Less than 30 per cent of the workforce has completed secondary education or higher, and less than one-tenth have had vocational training, either formal or informal. Although these figures, based on National sample Survey Organisation (NSSO) surveys, do not capture many types of skills that are informally acquired, it still suggests that skill-acquisition is generally very low.
- Since good quality 'formal' employment is rare, access to it is extremely unequal. Disadvantaged social groups such as Scheduled Castes (SCs), Scheduled Tribes (STs), and large sections of the Other Backward Classes (OBCs) are mostly concentrated in low-productivity sectors such as agriculture and construction and in low-paying jobs as casual labourers and Muslims are concentrated in petty so-called low productive self-employment. On the other hand, upper-caste Hindus and 'others' (comprising minorities such as Jains, Sikhs and Christians), have a disproportionate share of good jobs and higher educational attainments. There is an overlap between poverty and poor quality of employment as well.
- There is considerable regional differentiation in access to good quality employment. A preliminary Employment Situation Index (ESI) prepared for this Report shows that generally

workers in the southern and western states of India have much better access to good quality employment than do workers in states in the central and eastern regions. Himachal Pradesh ranks number one, in particular because of a good performance with respect to women's employment, while Bihar ranks last (see Appendix Table for details as well as indicators used in the index).

- There is considerable segmentation in the labour market in terms of forms of employment, sector, location, region, gender, caste, religion, tribe, etc. In spite of increased mobility over the years, acute dualism and sometimes fragmentation persists in the labour market. There is a great deal of movement between places of residence and work, and rural-to-rural and rural-to-urban migration is substantial, especially in terms of circular and temporary migration.
- Women in general are disadvantaged in the labour market. In addition to their low share in overall employment, greater proportions of them are engaged in low-productivity, low-income, insecure jobs in farms, and in the unorganized and informal sectors as compared to men.
- As is typical for a poor and developing economy, most workers in India cannot afford to be unemployed, hence the level of open-unemployment is quite low at 2.7 per cent. Even the more comprehensive current daily status (CDS) measure of unemployment reaches only 5.6 per cent. In reality, the problem is not primarily one of unemployment but lack of productive employment.

III. Labour Market Performance and Employment Outcomes in the Last Three Decades

Labour markets have witnessed significant changes in two decades since the economic reforms, which started in the 1990s. There are both negative and positive aspects to these changes.

Some major concerns that have emerged from the analyses.

- There has been increasing informalization of the workforce. The transfer of workers from agriculture to non-agriculture has been slow, with some acceleration in recent years, but most of the employment generated has been informal and insecure. To illustrate, the percentage share of contract workers in organized manufacturing sector has increased from 13 per cent in 1995, to 34 per cent in 2011. The growth of regular, protected jobs is also slow.
- A noteworthy trend has been the decline in the work participation of females during 2005-12.

Taking all age-groups into account, it stood at 29 per cent in 2004-05, decreasing to 22 per cent in 2011-12. Discounting for enrolment in educational institutions and the so-called income effect, this substantial decline has much to do with lack of appropriate opportunities for females. This is evident from the very high levels of young female unemployment. The employment of women remains 20 to 40 per cent below that of men.

- Labour market inequalities are large and disparities and inequalities have generally increased. The most striking is the disparity between the regular/casual and organized/unorganized sector workers: the average daily earnings of a casual worker stood at ₹ 138 in rural areas and ₹ 173 in urban areas in 2011-12, and that of a regular worker at ₹ 298 in rural areas and ₹ 445 in urban areas, while that of a central public sector enterprise employee was ₹ 2,005 per day. And, of course, the public sector employee has many other benefits as well as a secure job. Thus, a rural casual worker earned less than 7 per cent of the salary of a public-sector employee.
- The gap between per-worker earnings in agriculture and non-agriculture has considerably widened and now stands at a ratio of 1: 6. The share of wages in total value-added in manufacturing has been declining consistently. From around 0.45 in the 1980s, it has fallen to around 0.25 in 2009-10. The shift from wages to profits is large, and is closely connected with acceleration of growth in recent years. Thus, there is substantial shift towards income from capital, contributing to the overall increase in income inequality.
- The increasing 'informalization' of employment has gradually eroded the strength of trade unions. It is also evident from the sharp decline in the percentage of work-days lost due to strikes, alongside considerable increase in the incidence of closures. As such, the space for collective bargaining has been shrinking. Recent years have witnessed a significant rise in industrial unrest in several new manufacturing units, which poses a challenge for industrial peace, and is detrimental to the growth of the manufacturing sector.

But the story is by no means entirely negative.

- Notwithstanding disparities, there has been significant increase in real wages at the rate of over 3 per cent per year on average during the three decades between 1983 to 2011-12. Labour productivity has also shown an increase, although it remains low in comparison to global figures.

- The process of informalization of the workforce seems to have halted since 2004-05. In fact, the growth of organized-sector employment has been high after this period and the share increased from 11.8 per cent in 2004-05 to 17.0 per cent in 2011-12. Although the majority of this growth was still informal in nature, for the first time the share of regular formal employment increased from 6.6 to 7.5 per cent.
- The process of diversification of employment away from agriculture has also accelerated. Although the large share has gone to services and construction, and only marginally to manufacturing, the process has led to an acceleration in labour productivity. The level of per worker productivity has increased three times during the period 1993-94 to 2011-12. The wage share in the organized manufacturing sector, after declining steadily until 2007-08, started to recover to some extent in the last few years.
- The rise in wages has led to decline in absolute poverty. Importantly, although the decline in poverty has been across all socio-religious groups, the largest decline has been observed among the SCs, STs and OBCs as well as among upper Muslims. Thanks to the reservation policy, the proportion of SCs and to a very small extent STs in the public sector has increased between 1999-2000 and 2011-12, although their access to the private sector has declined. The proportion of Muslims employed in both private and public sector has also declined. The most noticeable trend is the significant increase in the proportion of OBCs employed in both private and public sectors, and a significant decline in the proportion of upper-caste Hindus as well as 'others' in both categories. Thus it seems that access to quality employment of the deprived groups has increased at the expense of the upper strata, although access to private sector of some groups (STs and Muslims), remains a matter of concern.
- There is a rising middle-class, which includes better-educated and skilled workers with rising incomes and high levels consumption. This may give some sustainability to the growth process.
- There has been significant growth in some advanced sectors of the economy such as information technology, automobiles, pharmaceuticals etc., which has had a spill-over effect on other sectors. Productivity in several industries has increased.
- Recent years have also witnessed a rise in the unionization of informal-sector workers. The popular movements about the right to work and

its implementation (in the form of the Mahatma Gandhi National Rural Employment Guarantee Act or MGNREGA), have contributed to worker-awareness and improved their bargaining power. This is indeed good for democracy and workers' rights. Persistent structural inequalities by caste and gender are likewise being recognized and tackled by popular movements.

To summarize, while the three decades of rapid growth have not radically transformed the labour market and employment conditions in the country, it has brought fairly substantial improvements. Nevertheless, low productivity employment in both agriculture and other sectors continues to dominate the labour market, and the disparities and inequalities across groups and regions remain large.

IV. Employment Challenges

The challenges of employment in India are complex and which are not reflected in the low levels of open unemployment.

- The most important challenge is the large number of 'working poor' and under-employed engaged in low-productivity activities in the unorganized sectors. By the current poverty line (equivalent to about US\$ 1.25 per day in terms of purchasing power parity or PPP), one-fourth of all workers-about 118 million- are poor. They are largely either casual workers or own-account workers. If the current poverty line is raised to about US\$ 2 per day (in terms of PPP), the percentage of working poor will increase to nearly 58 per cent and the number of such workers would be around 276 million. Overcoming the low productivity and poor income streams of this large group is indeed a gigantic task.
- Furthermore, these figures do not fully capture the vulnerability of the working poor. The low earnings are compounded by deplorable conditions of work in many informal-sector enterprises, as well as in the work premises of self-employed workers engaged in petty activities either at home or on the streets. They suffer from high health-risks as well as lack of safety standards.
- Although, overall, open unemployment is low, the problem of youth unemployment, particularly that of educated youth, is gradually becoming a major concern. About 30 per cent of the total unemployed in the year 2011-12 were graduates and above, up from 21 per cent in 2004-05. Differently put, the rate of unemployment among graduates (including technically trained), and diploma holders was around 18 per cent.

- Then there will be the new entrants in the labour force and the so-called 'demographic dividend'. India's labour force is growing at a brisk rate despite the fact that more young people are increasingly opting to prolong their years of education. By 2030 India's workforce will be larger than that of China. Most of the new entrants will be in the urban areas. Providing education and skills to the growing young population and meeting their job aspirations pose huge challenge. As the pace of migration and urbanization is likely to accelerate in the future, there will be the huge task of planning urban growth and formulating effective labour market policies. Failure to do so can be disastrous.
 - The unequal access of women to employment, and discrimination in the labour market, poses yet another challenge. An important reason for the declining participation of women in work is the lack of appropriate employment opportunities. In the wake of rising educational levels, coming years will witness a surge in the number of educated women; many of them will be graduates or more. At present, qualified women have much higher labour force participation than average. The country has unfortunately not been able to create enough jobs even for the limited number of educated females in the workforce. This is reflected in the very high rates of unemployment of young women—around 23 per cent among 15 to 29 year-old women, which is double that of their male counterparts. So the challenge for creating suitable employment opportunities for the youth bulge is particularly acute with regard to young women.
 - The inequalities and disparities that exist in access to employment across regions and social groups remain a huge challenge in India. This is particularly evident in the distribution of formal regular jobs and employment in productive sectors, which is skewed in favour of dominant groups and certain regions. Not surprisingly, states like Bihar, Odisha, Uttar Pradesh, and Madhya Pradesh, which carry the tag of 'backward' states, fare the worst on all indicators of good quality employment and the historically deprived groups like the SCs and STs resident in these states thus face a double disadvantage in access to decent employment opportunities.
- leads to a process of economy-wide productivity growth, along with employment expansion and rising wages. Even in the organized sector, informal employment should not grow at the cost of formal jobs.
- Regulatory interventions in informal enterprises should ensure that a minimum quality of employment is maintained and basic rights of workers are respected. The recent growth in the productivity and wages of workers in the unorganized sector is an important and welcome development. Although small, it has important implications for employment and development policies of the country. The need is to sustain and accelerate this process.
 - Appropriate policies and measures to address the issue of education and skills acquisition, and of skills mismatches need to be urgently put in place. The rising aspirations of the youth have to be met and the ongoing 'youth bulge' is likely to exacerbate this challenge. The challenge pertains not only to the achievement of a major quantitative expansion of the facilities for education and skill-training, but also to the equally important task of raising their quality. If it is to compete globally, India has to invest heavily in its National Skill Development Mission.
 - There are significant differences in access to quality employment across different social groups and regions. While economic growth in India has led to an increase in the quantity of employment, the access to quality jobs is still very low. Policy also needs to take into account the social and regional dimensions to access to employment. Affirmative action policies have played a role, but some states and regions, and certain deprived sections among the social groups need special attention. There is a need to also examine whether only sub-groups within the reserved groups, the poorest amongst the upper groups, and certain sections of minorities need to be included in the gamut of affirmative action policies.
 - Macroeconomic policies have been pursued independently from the employment goals of the country. There is a need for the restructuring these policies to make them supportive of an appropriate employment strategy. Tax incentives for particular types of investment or economic activity, public-sector investment in infrastructure or institutional support which promotes enterprise-development, research and development which aims to open up new production methods which are more labour-intensive, training and skill systems which make labour more productive, labour codes which encourage hiring, promotion of small

V. Policy Agenda

- A medium- to long-term employment strategy should be envisaged to deal with the challenges highlighted above. It should ensure that the organized sector, particularly manufacturing, grows much more rapidly than in the past and

and medium enterprises that are known to be more labour intensive, the list of possibilities is endless.

- Despite an improvement in management levels over the years, direct employment-generation programmes, with the possible exception of MGNREGA, have not had the desired impact in large parts of the country. Apart from the need for their restructuring, several of them also need to be more focused in the deprived regions. These regions include areas dominated by the tribal and backward populations, as also remote regions of the country, in order to unpack the full potential of both programmes and regions.
- Debates on labour market flexibility must be resolved in a way that meets the needs of both workers and enterprises. The question is how to ensure flexibility for market adjustments without compromising the basic interests of labour. Trade unions may agree to a job security trade-off in return for adequate separation benefits, say 45 days wages for every completed year of service as suggested by the Second National Commission on Labour, and adequate income security for all workers—employed or unemployed. It is necessary to ensure equal pay for all types of workers -regular, casual, contract, and temporary, to strictly enforce the payment of minimum wages and to provide social security to all workers. Simplification and modernisation of labour laws, the necessity of which is widely felt, has to be on the agenda.
- Given the widespread insecurity of livelihoods, it is extremely important to provide a minimum level of social security to all workers, which will certainly promote flexibility. Of course, the major role in this has to be played by the government and it is now widely viewed that at the present juncture of development it is possible for the country to do this. What is needed is political will to make universal social security a reality. However, this political will also needs to be backed by an appropriate design so that social security can achieve both the goals of providing a Social Protection Floor and contributing to the development process. Combined with better public provision of educational and medical services, a universal and portable social protection floor could function as an important instrument in pushing the economy on to the high road of not only rapid but also more inclusive and sustainable growth.
- Effective policy requires a greater effort at mapping and documenting today's principal labour and employment developments. Economic growth is creating new employment patterns

and new labour-market issues, new income opportunities and new forms of exploitation, new institutions and forms of organisation, new linkages between work and poverty. The diverse and complex character of work and employment in India needs in-depth analyses. These aspects need to be better specified, measured and understood if more effective and equitable employment and labour policies are to be put in place. This Report provides an overview of several facets of labour and employment in India and opens the door for more in-depth research, and this will be undertaken in subsequent reports. The general statistical system of the country should proactively fill the gaps that exist in our understanding of some of these aspects of the labour market borne out of data limitations.

- Thus, this Report reveals many markers of progress as well as challenges posed by changes in the labour market in India in the last three decades. The fact that comprehensive, responsive and effective labour and employment policies remain central to sustainable and inclusive development lies at the crux of this Report.

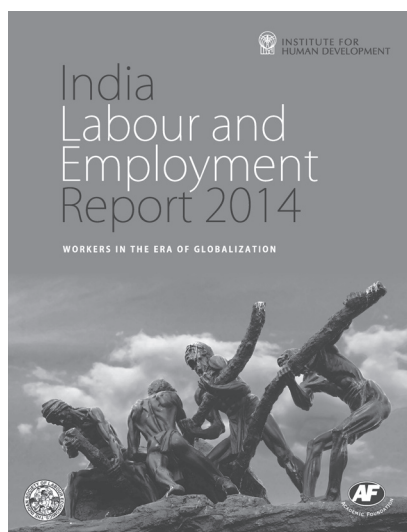
Appendix Table

Employment Situation Index (ESI) for Major States, 2011-12

| Region/States | Index (ESI) | Region/States | Index (ESI) |
|-------------------|-------------|----------------|-------------|
| North | | East | |
| Haryana | 3 | Bihar | 21 |
| Punjab | 5 | Odisha | 20 |
| Himachal Pradesh | 1 | West Bengal | 15 |
| Delhi | 2 | Jharkhand | 16 |
| Rajasthan | 11 | West | |
| Jammu & Kashmir | 9 | Gujarat | 12 |
| Central | | Maharashtra | 7* |
| Madhya Pradesh | 18 | South | |
| Uttar Pradesh | 19 | Andhra Pradesh | 7* |
| Uttarakhand | 12 | Karnataka | 4 |
| Chhattisgarh | 17 | Kerala | 10 |
| North-East | | Tamil Nadu | 6 |
| Assam | 14 | | |

Notes: indicators used in the construction of the index are percentage employed in regular formal work, work participation rate, percentage employed as casual labour, percentage of self-employed workers below poverty line, average wage of casual labourers, unemployment rate for secondary educated and above, percentage of unionized informal workers.

* identical rank is because of same ranking score aggregate for these states.



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The Institute for Human Development (IHD) was established in 1998 under the aegis of the Indian Society of Labour Economics (ISLE) as a non-profit autonomous institution by a group of senior social scientists and policy analysts. Through its corpus of research, analysis and policy recommendations, the Institute has made contributions across a range of priority areas, such as labour, employment, poverty, social security, development policy and planning, governance and decentralization, education, health, gender, etc. Over the years, the Institute has emerged as an important centre for study in human development poverty and livelihoods and related issues. In order to achieve its goals, IHD engages in academic and policy research; policy advocacy; teaching and training; academic and policy debates and dissemination; publication of different research and knowledge products; and networking with other institutions and various stakeholders. The Institute biannually publishes the Indian Journal of Human Development, exclusively devoted to contemporary discourses and empirical research on focal themes of human development.

The **Indian Society of Labour Economics (ISLE)** is a broad-based professional association of researchers, scholars and other stakeholders interested in the areas of labour and development issues. The Society promotes scientific studies of labour markets, industrial relations and related issues and provides a forum for exchange of ideas and disseminates knowledge. The **Indian Journal of Labour Economics**, a quarterly journal of the Society, now in its 56th year of publication, is peer reviewed and widely-circulated, promoting and featuring scientific studies on labour.



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Recent employment trends in India raise many momentous issues—the sluggish growth of real wages, the continued exclusion of women, and the limited reach of workers' organisations, among others. This report will be of great value in bringing these issues closer to the centre of attention in economic policy, public debates and democratic politics.

—**Jean Dreze** Honorary Professor, Delhi School of Economics

To understand labor worldwide, we must understand India, with its huge growing workforce, many self-employed or working in the informal sector. The India Labour and Employment Report offers an invaluable picture of the Indian labor scene. I learned much from this edition and look forward to future editions. Required reading for labor and development specialists.

—**Richard Freeman** Herbert Ascherman Professor of Economics, Harvard University

This excellent report presents comprehensive and well organized information on labor and employment in India, as well as a balanced discussion of achievements and policy challenges. It will prove essential reading for researchers and policy makers alike.

—**Ravi Kanbur** Professor of Economics, Cornell University

The fact that most Indians still work in low-productivity occupations at very low incomes and lack access to social protection poses major challenges for the country's development By carefully disaggregating the diverse experience of working Indians, the report identifies areas for action that could make economic growth more inclusive and distribute opportunity more broadly.

—**Sandra Polaski** Deputy Director General, International Labour Office

Based on latest data, this Report succinctly brings out the emerging pattern of labour market/outcomes and challenges of employment. The emphasis on creating more employment in the organized sector and enhancing the productivity and income of workers in the unorganized one will facilitate the gradual formalization of the workforce – a dire need of the country. The Report will be very useful for all those concerned and engagement with the inclusive development agenda.

—**Abhijit Sen** Member, Planning Commission, Government of India

The Indian Labour and Employment report is a landmark undertaking. It collects together diverse information on the state of Indian labour markets including the questions of underconsumption, income distribution, the changing structure of the labour force, the informal sector and the increasing role of services in the economy. The report's emphasis on the development of the manufacturing sector as being the key to economic development of the country, is particularly welcome – as is the stress on inclusive growth. It's a must-read addition to the literature on labour economics in the Indian context.

—**Ajit Singh** Professor Emeritus of Economics, University of Cambridge

Rapid economic growth over the last two and half decades has certainly contributed to reduction of extreme poverty in India as well as to modest improvements in the quality of life of a large segment of the population. However, the growth has been marked by large employment deficits—most job creation is in the informal economy and has been of poor quality and low productivity. Further, the gains from growth have been disproportionately captured by a minority of the population, leaving many excluded. Consequently, inequalities have widened and vulnerabilities have grown, generating widespread insecurity of livelihoods and highlighting the weaknesses of the prevailing social protection systems.

This unbalanced pattern of growth in large measure reflects the structure of the labour market and the nature of employment, as well as the impact of a wide range of labour market institutions and of state policies. However, there is lack of an analytical documentation on these issues. The India Labour and Employment Report (ILER), planned as the first of a series of biennial publications by the Institute for Human Development (IHD) and the Indian Society of Labour Economics (ISLE), attempts to fill this gap. While future reports will address specific themes of importance in the changing labour and employment situation, this first report provides an overview of the labour market and employment outcomes that the Indian economy has delivered as it globalised. The Report assesses the gains and losses for labour in the first round of globalization. It reveals many markers of progress as well as deep challenges. Structural changes in the labour market are slow and difficult and the potential for equitable growth remains unrealized, hampered by policy inertia, by the resistance of social and economic interests and by the rigidity of existing systems and perspectives.

Effective, responsive, fair and comprehensive labour and employment policy is vital for sustainable and inclusive development. That is the central message of this Report.



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