

Structural Change, Jobless Growth and ‘Informalization’ of Labor: Challenges in Post Globalized India

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Paper Abstract: Employment occupied a central stage and became a central objective of development in many countries after the 2009 Global crisis and the “Arab Spring” of 2011. In fact earlier it also became a part of MDG’s in 2007. Since then questions have been raised about the generation of employment and its quality with the ongoing process of globalization: whether growth contributes to employment creation? How does growth lead to structural change in an economy, and what kind of jobs is created in the process of globalization? The challenge today is not only to create enough jobs but also the quality of jobs that pay enough to end poverty (ODI, 2011).

It is argued that structural change takes place as a result of the growth process. As development takes place, sectorial changes in output are thought to occur because of higher income elasticity of demand for manufacturing goods and for services as compared to agricultural products. Some approaches to structural change view economic growth as the process which involves the creation of new highly technical industries and the replacement of old industries. The former drive growth processes by accelerating the pace at which existing output, employment and productivity in the economy grow. The change in pattern of production is evident by the increase in percentage of employment in the service industry from 33.6 percent in 1991 to 43.8 percent in 2008 for the world as a whole (Cornia et al., 2014).

It is found that in developing countries, a substantial proportion of employment and output generation is concentrated in the informal sector (Schneider et al., 2010; and Cornia et al., 2014). The phenomenon of increasing informalization of industrial labor is partly due to structural change when output and employment shift from agriculture to manufacturing and to services. However, ‘informalization’ is a serious issue of concern because if industrialization does not create many good jobs for people to shift from low productivity occupations, it cannot make a big contribution to economic development. Also available evidence show that wages and employment benefits received by informal workers are much lower than those of regular wage workers and the incidence of poverty is much greater among informal workers than the regular wage workers, so informalization may also lead to widening income inequality (Rani, 2008). The ‘informalization’ of labor has taken place not only in the informal sectors of the economies but also in the formal sectors through out-sourcing and sub- contracting of output and jobs from formal sectors to informal sectors. The growth of global value chains has also helped this process. The challenge is however, to measure the extent of informalization in the nonmanufacturing sectors especially in different fast growing service sectors. Many of the

countries do not have either a consistent and reliable definition, or the data set to measure informal employment and its quality. So most of the studies have mainly focused on informalization in the manufacturing sector, while a major challenge is to measure 'informal' employment in service sectors.

One of the major concerns of the Indian economy today is to experience a growth process that is 'inclusive' and promotes employment by initiating a second round of structural reforms. The past experience of post liberalization growth, since 1990's when the first generation reforms were started is that the growth has been 'jobless' (Kannan, et al 2009) - creating few jobs in the Indian economy with low employment elasticity. The pattern of employment growth has also been imbalanced with only a very few sectors experiencing employment growth. India now has a large share of unorganized sector employment in the economy; with declining productivity; growing use of temporary and contract workers; and subcontracting of organized sector jobs. It is mainly the 'low-wage' and 'insecure' employment that has been increasing.

The paper aims to investigate the phenomenon of 'informalization' of Indian labor force post reforms and wish to highlight the nature and causes underlying it. The paper would try to identify the sectors which have high employment growth potential based on their employment elasticity (which is overall very low) and extent of labor market reforms. The paper would explore different sources of data and focus on using an appropriate and consistent data base to measure 'informalization' not only in manufacturing sector but also in the services sector.

Key Words: structural change, informalization, manufacturing, employment elasticity JEL classification: J21, J24