

Trends and Structure of Employment and Productivity in Unorganized Manufacturing Sector of India in Post-reform Period

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Paper Abstract: In India, the economic reforms of 1990s were specifically targeted to the manufacturing sector. The emphasis on the manufacturing sector was due to the realisation that the sector offers greater prospects for capital accumulation, technical change and linkages and hence job creation, especially for the semi-skilled and poorly educated segment of the labour force. But a large chunk of the labour force employed in the manufacturing sector of India is unorganised in character. This has a great implication for the quality of jobs and productivity in this sector. The unorganised sector accounts for almost 80 per cent employment and generates only about 33 per cent of output of the manufacturing sector. This causes sharp inequality between the per capita output (and also wages) between the organised and unorganised segments of India's manufacturing sector. Productivity of the unorganised manufacturing sector is low, partly because the relatively small size of manufacturing firms makes it difficult to exploit economies of scale. Given that unorganised manufacturing accounts for a relatively large share of employment, the improvements in productivity in unorganised segment assume tremendous significance from the policy perspective. Hence, present study uses NSSO (National Sample Survey Organisation) data (for the period 1994-95 to 2009-10) on unorganised manufacturing as well as on non-agricultural enterprises to explore the trends and changes in structure of employment as well as productivity in various sub-sectors of the unorganised manufacturing sector. For overview of the performance of various sub-sectors of the unorganised manufacturing sector in India, simple growth rates of employment and labour and capital productivity have been measured; then the CD production function is employed to measure TFPG. The endogeneity bias is tried to be corrected by using Levinsohn and Petrin (2003) approach. An attempt has also been made to calculate the relative productivities of the small sized own account enterprises (OAMEs) and non-directory manufacturing enterprises (NDMEs) vis-à-vis relatively bigger sized enterprises i.e. the directory manufacturing enterprises (DMEs).

While, the unorganised manufacturing sector in India shows an increase in employment, yet the analysis at the sub-sector level shows wider intra-sectoral differences. A few sub-sectors have experienced an improvement in productivity growth while the others have shown a decline in the same. On basis of these contrasting trends, we can easily categorise these sub-sectors in four broad groups. These are:

- I. Positive employment growth and positive productivity growth (ranked from highest to lowest employment growth rates 1994-95 to 2009-10)
- II. Positive employment growth and negative productivity growth
- III. Positive labour productivity growth and negative employment growth (ranked from highest to lowest productivity growth rates 1994-95 to 2009-10)
- IV. Negative employment growth and negative labour productivity growth (ranked in ascending values of the negative employment growth rates 1994-95 to 2009-10).

These groupings have put forth very interesting results viz., the unorganised manufacturing units are moving from rural to urban locations; the productivity gains are higher in inorganic modern industries while the organic and traditional industries lie in either of the last two categories; small family owned enterprises are giving way to relatively larger sized NDMEs and DMEs in terms of employment as well as productivity growth. It has also been found that the key factors driving this transition are raising the capital-intensity. The entire process raises labour productivity but tends to reduce labour absorption per unit of output. Enterprises which are not able to participate in these transitions are left behind. Thus, despite abundant, low-skilled and relatively cheap labour, the growing Indian manufacturing even in the unorganised segment is surprisingly capital and skill intensive. A relatively lesser role is being played by labour in the production process in the unorganised sector. This is a cause for concern as this segment is a significantly larger employment provider compared to the organised sector. Moreover, the quality of employment in this sector which is characterised by low productivity, low wages and absence of social protection is also a cause of worry and raise several important questions. Hence, it is being suggested that for improving the quality of jobs, reducing wage inequalities, it is important that the emerging sub-sectors with positive qualities should be given greater policy attention and their specific problems should be dealt with utmost urgency as these sectors have great potential for absorbing more of the labour force along with an increase in productivity.