LOSING OUT IN A GROWING ECONOMY: LABOUR IN THE ORGANISED MANUFACTURING SECTOR IN THE ERA OF GLOBALISATION

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This paper investigates the movements in wages and employment growth in the organised manufacturing segment of Indian industry in the era of globalisation. The attempt is to explore the link between globalisation and a particular tendency of ‘labour illfare’ centring around the ‘adjustment processes’ associated with trade liberalisation. The analysis in this paper shows that firms have been able to adjust and survive in the new environment while the mechanisms associated with adjustment have resulted in a worsening of distribution within the industrial economy, thereby helping capital to appropriate more share in value added. Further, there has been a relative downslide in terms of income for the workers in this sector as the incomes in the rest of the economy, particularly that of public sector enterprises employees, increased at a higher rate.

I. INTRODUCTION

This paper investigates the movements in wages and employment growth in the organised manufacturing segment of the Indian industry in the era of globalisation. The attempt is to explore the link between globalisation and a particular tendency of ‘labour illfare’1 centring around the ‘adjustment processes’ associated with trade liberalisation. As is well known by now, the 1990s represent a paradigm shift in India’s economic policy formulation. Successive moves in the direction of liberalisation of the external sector of the economy gathered momentum since the early 1980s, and 1991 witnessed the most significant rupture in economic policy-making since the advent of planning in the 1950s. The regime shift involved a concerted effort to integrate India with the rest of the world, notwithstanding the associated consequences, via trade liberalisation coupled with attempts to accord a much greater role to the private sector in the industrial economy. This paper highlights the welfare consequences of this policy shift on labour, albeit at a certain level of aggregation. The attempt is to provide a panoramic view, at the cost of some of the regional and sectoral specificities, as the trend is explored while ignoring fluctuations.

After a long period of hibernation, the recent show of dynamism in terms of growth of the Indian economy has raised expectations about the percolation of this growth more evenly...

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across the population. A plethora of studies have analysed the pattern and causes of India’s economic growth in the 1990s. Despite receiving considerable attention, understanding the constellation of forces that have determined the growth performance of Indian economy continues to be a puzzle even now. Even more intriguing has been the role of policy changes, which took a radical turn since 1991, in determining and sustaining the current growth trajectory. While a number of studies have posited a positive association between the shift in policy regime and economic performance, there has been a spate of evidence on the inability of this economic performance to bridge income inequality and in fact worsening distribution.

A notable feature of the growth performance of the economy has been the sectoral shift in terms of output. The services sector emerged as the main propeller of growth surging ahead of the commodity production sector. Given this predominance of the services in the economy, more than 50 per cent of the GDP in the post-2000 era, several authors have concluded that this sector is driving the current growth wave (see Suresh Babu, 2005). It should also be noted that this growth pattern in India is very different from that of some of the comparable economies including China, where services contribute only 33 per cent to the GDP during the corresponding period. However, such a structural shift in output has not been accompanied by a corresponding structural change in employment.

Table 1 portrays output, employment and investments in the economy since 1991. As is evident from the table, the share of agriculture and allied sectors in total employment
declined sharply to 56.67 in 2001 showing a fall of about 12 percentage points during the era of economic reforms. This considerable shift in employment away from agriculture and allied activities has been absorbed in varying degrees by different industry groups. It has been found that there has been a significant absorption in construction, manufacturing and in the service sector of the economy, notably in trade, hotels and restaurants; and in transport, storage and communication. After low labour absorption in the 1980s, the share of manufacturing also increased, but as compared to 1981, when the sector had an 11.07 percentage in total employment, this increase does not seem to be substantial. However, the change in employment pattern in the economy needs to be read in conjecture with the changes in output and investment. The decline in the share of employment in the agriculture and allied sector has also been associated with a decline in the average share in GDP. The average growth of GFCF in this sector, which was 4.32 per cent for the period 1981 to 1991, declined to 3.69 per cent and then increased to 6.48 per cent during the period 2001-02 to 2004-05. Sectors such as construction and trade, and hotels and restaurants, which witnessed an increase in the share of employment have also registered a rise in output and investments. As there exists a discrepancy between the contribution of the primary sector to the GDP and its share in the workforce coupled with the fact that only a quarter of the population is employed in the service sector, which is the catalyst of growth in the economy, the scenario presents close similarities to a situation of ‘jobless growth’.

The role of the manufacturing sector in structural transformation presents an interesting scenario in terms of an impressive rate of investment growth, steady share in GDP and an enhanced labour absorption in the post-2000 era. It should, however, be noted that this

Figure 1
Growth Rates of GDP and Manufacturing Sector
sector is a combination of registered and unregistered activities with the unregistered segment presenting an altogether different picture in terms of employment and conditions of work. As compared to the 1990s, in 2001, the employment share of manufacturing increased but the magnitude of increase is small if viewed from two aspects, that is, in 1981, it already had a share of more than 11 per cent in the total employment and since 1991, it has occupied a prime place in the economic reforms package, receiving considerable attention and resources. The rate of growth of manufacturing mimics the movements in GDP growth as observed in Figure 1. After taking off, since the onset of reforms in 1991, both the IIP and GDP growth showed slowdowns in the late 1990s but revived post-2001.

An examination of industrial growth reveals that in the transition process from a protected regime to an era of global integration, the organised manufacturing sector has been able to adjust and even accelerate the rate of growth. In fact, industrial growth crossed double digits along with high investments growth in the post-2001 period. Unlike the trend of the 1980s, this higher rate of growth has also been accompanied by minor employment growth in some years, indicating a departure from the ‘jobless growth’ phenomenon. However, considering the period as a whole, an overall mismatch can be seen between output and employment growth, with implications on distribution and labour welfare. An explanation is proposed here for this mismatch in terms of the ‘adjustment process’ of the firms. In order to anticipate the argument, globalisation via trade liberalisation has led to an ‘employment squeeze’, leading to an increase in profitability in an oligopolistic setting favoured by a mark-up pricing mechanism, resulting in increased profitability. This increased profitability has resulted in greater availability of funds for expanding the capital base for the firms, leading to further labour displacement and enhanced labour productivity, resulting in even higher profits. Evidence is provided here about the argument that this type of adjustment has resulted in an overall labour ‘illfare’. As a prelude, the rationale and possible consequences of trade liberalisation are discussed. This is followed by some macro-evidence on the ‘adjustment’ process and its implications for labour. Finally the observations are summed up.

II. GLOBALISATION VIA TRADE LIBERALISATION: THE RATIONALE AND CONSEQUENCES

Advocates of free trade argue that the protection of a sector, typically manufacturing, through trade barriers might lead to increases in prices of the output of that sector as also an increase in the profits of producers, by conferring rents rather than encouraging efficiency. Attracted by these higher prices and profits, resources then get allocated to the protected sector. Protection could thus encourage the allocation of resources into sectors in which a country does not have a comparative advantage. It follows that in many developing countries, according to this view, protection has encouraged excess resources into inefficient activities and insufficient resources into potentially efficient activities. This bias is exacerbated by policies that tax and discriminate against efficient activities. And these tariffs and non-tariff barriers also encourage unproductive activities (rent-seeking), tax avoidance and evasion. The panacea suggested was to dismantle the protectionist regime and liberalise trade through a
set of reforms that reduces the bias against the production of exportables to bring the relative prices for importables and exportables in a country closer to the relative world prices for the relevant commodities.

The policies of trade liberalisation, which were initiated in India after 1991, could be classified into two broad groups: (a) those which were intended to reduce domestic distortions, and (b) those intended to ease trade with the rest of the world. The rationale for import liberalisation by way of reduction in tariff rates and a movement away from the quantitative restrictions was to bring cost reduction via lowering the prices of intermediate inputs and enhance the competitiveness of the final products. Controls via quantitative restrictions, which accounted for 90 per cent of the items in the pre-1991 era, decreased dramatically to 51 per cent even as early as in 1994-95 and as low as 20 per cent in 2003-04 (MoF-GoI, various years). Along with this movement away from quantitative restrictions, there were also substantial reductions in the tariff rate.

For assessing the impact of trade liberalisation, its aftermath costs need to be examined. If foreign competitors are more efficient than domestic producers, when import barriers are lowered, domestic consumers can be attracted by foreign producers with their lower prices. Domestic import-competing firms in those markets will then face downward pressures on sales and profits. This can eventually lead to pressure for lower wages, employment losses and even the closure of some firms. Labour and capital might be forced to leave in order to find employment in other sectors of the economy with the advent of lower wages and/or job losses, and the prospects of lower returns to capital in their current jobs and investments. These greener pastures for labour and capital are very likely to include the country’s export industries, especially if trade liberalisation is the kind of reciprocal liberalisation that occurs in multilateral negotiations. Sometimes, transitions from the previous employment to a new employment take place relatively smoothly. This happens when a booming export sector ‘pulls’ workers and capital away from domestic import-competing firms. Unfortunately, this is not always the case and workers incur costs in the form of periods of unemployment, along with moving expenses and/or retraining costs to obtain new skills.

Low-skilled workers are more likely to have a permanent pay cut in a new job because increased trade decreases the long-run demand for unskilled workers and thus their wages. They are, therefore, hit twice by the economy’s move to freer trade—once by having to pay the transitional ‘adjustment costs’, and again because they suffer from the long-term distributional consequences of increased trade. Certain highly skilled workers can also be affected by a similar process. A worker whose skill is one that is highly specialised and specific to an import-competing industry, which is under pressure from increased imports, may have to ‘write off’ the human capital associated with that industry-specific skill. In other words, the wage which that skill can command, may decline substantially if the industry in question declines substantially. Wage premiums received as a result of seniority and/or union power could also face the same consequences. Another loss for workers arises when trade-displaced workers end up earning lower wages in their new jobs. This wage difference will mainly stem from the fact that their work is valued differently in the new job than in the old job. It is not linked to the adjustment process but rather to the long-term distributional effects of trade liberalisation.
It is also possible that the adjustment of firms takes different forms as they try to raise competitiveness and survive in certain situations of policy changes. Even the bulk of the adjustment by workers can be avoided if companies manage to raise competitiveness. In their attempt to raise competitiveness, firms will typically have to invest in new production technologies to raise cost-efficiency or sometimes invest in new product development in order to change their position in the market, which would require investment and probably time. In other words, firms would also need to go through an adjustment process. When import-competing industries cannot enhance their competitiveness and profitability, then they will have to reduce production and probably release the factors of production including workers. During this process, if the shrinkage of import-competing industries is accompanied by an expansion of exporting industries, it will be easier for those workers to find new jobs quickly. But an expansion on the export side may require its own adjustment process and the existing and new exporters need to make an initial investment in order to expand their activities, particularly in foreign markets. In some situations, trade liberalisation may change a firm’s competitive environment and provide scope for profitable adjustment. This may be the case when production technologies become available more easily because of contact with foreign products/technologies, which would only require more investments, without a substantial increase in the workforce.

III. DISCUSSIONS ON WAGES AND EMPLOYMENT IN INDIAN INDUSTRY

On theoretical grounds, trade liberalisation is expected to shift India’s industrial structure towards labour-intensive industries. Also, it should provide greater encouragement to the application of labour-intensive methods of production in which it has a comparative advantage. This should lead to an increase in the demand for labour in industries, resulting in an upward pressure on the real wages in the industrial sector. Import liberalisation may additionally contribute to higher wages through its productivity-enhancing effects. Thus, a favourable effect of import liberalisation on industrial wages and employment can be expected. However, as shown in a number of studies, in reality, there has not been any significant acceleration in the growth of real wages or employment in organised manufacturing in India during the post-reform period.

The employment situation in India after the reforms has been widely discussed and debated. One set of studies has argued that structural changes would lead to greater labour and product market flexibility, a shift towards labour-intensive techniques and commodities, and hence a rise in employment potential and job availability (Papola, 1994). Another set of studies has argued that increased competition in a globalised framework would force firms to trim their workforce and shift towards more capital-intensive ‘advanced’ technology. This would eventually restrict employment expansion along with discernible trends towards casualisation of the workforce (Mundle, 1993; Deshpande, 1992; Bhattacharya and Mitra, 1993; Agarwal and Goldar, 1995; Kundu, 1997; Deshpande, et al., 2004). A third set of studies has taken the middle ground and have forecast that employment growth would suffer a setback in the initial transition period but will be restored in the longer run (Bhalotra, 1998; Nagaraj, 1994).
Some studies have also argued that employment in organised manufacturing cannot be seen in isolation and that there has been an urban bias in the relative growth of employment along with a positive association between the initial levels of urbanisation and urban employment growth. There has also been extensive documentation of the growth of employment in the unorganised sector. The unorganised sector has created a lot of employment across Indian states, especially within the private sector. Along with this, the share of the organised sector has declined in overall employment in all the states. These studies have pointed to three distinct features on employment growth in recent times: (a) faster growth of urban employment; (b) growth of employment in the unorganised sector, and (c) a decline in the share of the organised sector in overall employment.

Studies with respect to estimates of wages and employment in the manufacturing sector during the pre- and post-liberalisation periods have arrived at ambiguous results. As regards the trend in real wages, Goldar (2002) shows that the growth in real wages has slowed down appreciably during the post-reforms period. At the aggregate level, the growth rate of real wages per worker is found to have declined from 3.29 per cent per annum during the period 1973-74 to 1989-90, and to 1.16 per cent per annum during the period 1990-91 to 1997-98. Although there are differences in the experiences of different industry groups with regard to the growth of real wages, the overall conclusion that may be drawn from the available studies is that there has been an appreciable slowdown in the growth of real wages in organised manufacturing in India since the 1990s.

A cursory look at the debate on jobless growth in the manufacturing sector indicates several hypotheses that have been put forth to explain the sluggishness in the growth of employment and wages (see Nagaraj, 2004; Unni and Raveendran, 2007; Kannan and Raveendran, 2009). However, two possible causes of the slowdown in wages and employment assume relevance for the discussions here: (a) reduction of economic rents in the process of moving over from a restrictive trade regime to a much more liberal regime, and (b) weakening of trade union strength in manufacturing industries during the post-reform period. If trade reforms had led to a large increase in the demand for labour, the adverse effects of trade reforms on the growth of real wages could have been countered by an upward pressure on wages emanating from a tightening of the industrial labour market. As the available evidence points out, this has, however, not happened so far. There was a slight acceleration in employment growth in organised manufacturing in the 1990s, but this was not sufficient to cause a tightening of the labour market.

After the above discussion of the possible consequences of the ‘adjustment process’ required for both the workers and firms, and some discussions in the Indian context, some aggregate evidence on the outcome of these adjustments is provided below.

**IV. OUTCOME ON FIRMS**

A common approach to assess the effect of trade reforms on firms as well as on labour is to use data drawn from micro level surveys. These surveys reveal the precise mechanisms of the adjustment to a new trading environment. However, in keeping with the objective of
carrying out an economy-wide assessment, below collated are some macro level data drawn from the Annual Survey of Industries (ASI). Table 2 provides trends in output, investment, employment and profitability. The data presented are the average figures for a production unit, that is, a factory in the ASI, in levels (nominal values as reported in ASI) and not the growth rates, as growth rate estimations could have biases depending on the use of deflators, especially for capital.

Table 2

| Total persons engaged (per factory) | 74.09 | 75.01 | 74.06 | 58.73 | 57.86 | 62.15 |
| Value of output (Rs. per factory) | 266.46 | 421.09 | 614.90 | 681.49 | 946.53 | 1229.72 |
| Net value added (Rs. per factory) | 48.83 | 88.22 | 122.37 | 105.59 | 149.22 | 191.09 |
| Profits (Rs. per factory) | 8.58 | 30.25 | 40.04 | 26.25 | 67.91 | 106.32 |

Source: Computed from ASI.

All the indicators presented in Table 2 show an increase over time except employment, thereby throwing some light on the ‘adjustment processes’. The following inferences can thus be made. The opening up of the economy has led to a steady increase in investments at the factory level, which has helped firms to enhance the output and value added. As firms can access global markets for both output as well as capital inputs (finance and machinery), they have taken advantage of globalisation. More importantly, the nature of investments undertaken seems to have been in technologies of the labour-displacing kind. In other words, during this phase of investment, the growth of average employment per factory declined. This could be an outcome of the process of ‘gaining competitiveness’ by firms to thrive in a more competitive environment. After a drastic fall since 2000, there has been a slight increase in average employment per factory in 2004-05, but this is much less as compared to 1991, clearly indicating some shedding of the workforce. The type of investment path chosen by the firms seems to have paid off as a manifold increase can be seen in output and value added per factory. A sharp increase in the most significant indicator of firm performance—profits—indicates the successful adjustment of firms. Capital investments and associated labour displacements have enhanced profits, which could be ploughed back for further investments and expansion. Given this trajectory of growth and investment along with the profit-maximising behaviour of firms, the fluctuations in employment and shedding of labour are likely to perpetuate.

The strategy of displacing labour has helped firms in three different ways as seen in Table 3. First, it has helped firms reap the benefits of increased labour productivity. While the output on an average grew at 8.57 per cent during the period 1991 to 2004, labour productivity registered a growth rate of 7.88 per cent. However, the growth of labour productivity is not a phenomenon confined to the reform period. Since the 1980s, higher rates of labour productivity growth can be seen, which have been even higher than the total factor productivity growth. A continuous increase in investments has enabled firms
to sustain the growth in labour productivity. Second, with increased investments, firms have been able to practise substitution among workers. As portrayed in Table 3, the share of wages in total emoluments has declined over time. Wages accounted for 64 per cent of the total labour expenses in the manufacturing sector in 1991, which declined to 52 per cent in 2004. This points to a strategy of the firms to substitute low-skilled workers with fewer high-skilled workers and thereby reap productivity benefits. Third, by shedding the workforce and substituting workers, firms have been able to appropriate a higher share in value added, which would be used for further investments. The share of wages in value added, which is an indicator of distribution in the industrial economy, has worsened since 1991. Workers had a 24 per cent share of value added in 1991, which declined to half (12.9 per cent) in 2004. The worsening of distribution could lead to the following inferences on the reform process: (a) capital seems to have gained in the reform era when the labour lost out, and (b) there is an apparent sign of the weakening of the bargaining power of labour in the manufacturing sector.

The adjustment by firms could thus be via infusing more capital to displace/substitute labour and enhance the productivity of the workers. In the process, they have benefited from output growth and enhanced profitability. Not only has profitability increased but the share of capital in value added has also increased substantially. This has implications for the labour employed in this sector, which are elucidated below.

V. ADJUSTMENT OUTCOMES ON LABOUR

The changes in policy environment and the subsequent response of firms have had significant consequences on the growth of employment and wages in the manufacturing sector. This
is characterised as ‘illfare’ to labour on account of shrinking employment opportunities, incongruence between growth of labour productivity and wages, and a relative slide-down in the economy.

Table 4

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</thead>
<tbody>
<tr>
<td>Share of manufacturing in total public sector employment</td>
<td>9.72</td>
<td>9.17</td>
<td>8.49</td>
<td>7.93</td>
<td>6.28</td>
</tr>
<tr>
<td>Share of manufacturing in total private sector employment</td>
<td>58.37</td>
<td>58.39</td>
<td>60.32</td>
<td>58.81</td>
<td>53.11</td>
</tr>
<tr>
<td>Share of manufacturing in total organised sector employment</td>
<td>23.69</td>
<td>23.43</td>
<td>24.43</td>
<td>23.66</td>
<td>21.24</td>
</tr>
</tbody>
</table>


Since the onset of economic reforms, the growth of employment in the organised manufacturing segment of the economy has been fluctuating, and has even been negative for some years. In fact, there exists a tendency of production getting relocated to the unorganised segment of the industrial sector, leading to a faster rate of employment growth in unorganised manufacturing activities. This has been accentuated with the adjustment process of firms and an overall increase in the unemployment in the economy. It is evident from Table 4 that the share of manufacturing in the total organised sector employment has been steady since 1991. In recent years, there has been a decline in its share, indicating that the number of jobs generated in this sector has slowed down as compared to the rest of the economy. The manufacturing sector accounted for 9.72 per cent of the jobs in the public sector in 1991, which declined to 6.28 per cent in 2005, largely due to reforms, such as disinvestment and shedding of the workforce, undertaken to increase the competitiveness of public sector enterprises. The bulk of manufacturing employment in India is in the private sector. Even here, there has been a 5 per cent decline in the share of manufacturing employment. On the whole, this indicates an overall shrinking of job opportunities in the manufacturing sector, implying that the possibility of absorption of workers displaced by the trade reforms elsewhere in the sector looks bleak.

As noted earlier, the era of reforms has also been an era of high labour productivity growth. The increases in productivity, however, did not translate into higher wages as wages stagnated in the manufacturing sector. Three indicators of wage per worker are presented in Table 5, viz. the money wages, real wages, and product wages, indicating diverging trends.

For manufacturing as a whole, there has been a trend of the rising money wage rate. The money wage rate is used because in an oligopolistic product market, where firms possess market power, there exists a possibility whereby firms and workers bargain over the money wage and profit-maximising firms’ mark-up over the direct cost. This trend of increasing money wages needs to be seen along with an increase in labour productivity and the share of wages in value added. The decline in the share of wages across the entire manufacturing sector, alongside the higher rate of growth and the improvement in productivity, points to a relative shift of income away from workers towards profit-earners. Turning to product
wages, a slowing growth of the product wage, co-existing with productivity growth, implies that the increase in productivity has not been passed on as higher product wages, leading to a decline in the share of labour in value added. As product wage could be used as a rudimentary index of labour power, the situation reflects a weakening of the power of labour. However, a better indicator of the workers’ standard of living is the real wage, that is, the money-wage rate deflated by the consumer price index for industrial workers. Overall, the real wage has been stagnant since 1991, and has in fact, been declining to the levels below that of 1991 in some years. This represents a significant departure from the trend of the 1980s, when the real wages grew faster and were blamed for ‘jobless growth’. As workers consume goods other than the ones that they produce, their welfare is directly affected by the overall price level in the economy. The constancy in real wages is then an outcome of workers not being compensated for the overall price increases in the economy, leading to a deterioration of their living standards. The behaviour of prices since 1991 shows that to a great extent, this deterioration in the living standards of the workers is the outcome of the rise in the relative price of foodgrains.

The combined effect of shrinking employment opportunities and stagnation in real wages is reflected in the relative slide-down of labour in the manufacturing sector vis-à-vis the rest of the economy. In Figure 2, the indices (base 1991) of per capita NNP (1999-2000 prices) are plotted alongside per capita real wages in the manufacturing sector, and the real per capita emoluments of the Central public sector enterprises employees. It can be seen that the per capita NNP grew at a steady rate since 1991. Hence overall, the economy has witnessed an increasing trend in per capita incomes. Even though there are some fluctuations, interestingly, the emoluments of public sector employees with a year’s exception have always

Table 5
Wages in the Manufacturing Sector

<table>
<thead>
<tr>
<th>Year</th>
<th>Index of money wage</th>
<th>Index of real wage</th>
<th>Index of product wage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991-92</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
</tr>
<tr>
<td>1992-93</td>
<td>116.83</td>
<td>106.61</td>
<td>108.23</td>
</tr>
<tr>
<td>1993-94</td>
<td>122.46</td>
<td>103.95</td>
<td>103.18</td>
</tr>
<tr>
<td>1994-95</td>
<td>145.81</td>
<td>112.44</td>
<td>105.00</td>
</tr>
<tr>
<td>1995-96</td>
<td>169.15</td>
<td>118.35</td>
<td>115.86</td>
</tr>
<tr>
<td>1996-97</td>
<td>170.03</td>
<td>108.88</td>
<td>113.70</td>
</tr>
<tr>
<td>1997-98</td>
<td>179.63</td>
<td>107.48</td>
<td>117.32</td>
</tr>
<tr>
<td>1998-99</td>
<td>180.04</td>
<td>95.24</td>
<td>112.36</td>
</tr>
<tr>
<td>1999-00</td>
<td>193.30</td>
<td>98.91</td>
<td>117.17</td>
</tr>
<tr>
<td>2000-01</td>
<td>208.16</td>
<td>102.68</td>
<td>121.79</td>
</tr>
<tr>
<td>2001-02</td>
<td>212.56</td>
<td>100.54</td>
<td>124.37</td>
</tr>
<tr>
<td>2002-03</td>
<td>222.40</td>
<td>101.05</td>
<td>123.27</td>
</tr>
<tr>
<td>2003-04</td>
<td>231.10</td>
<td>101.22</td>
<td>120.19</td>
</tr>
<tr>
<td>2004-05</td>
<td>235.24</td>
<td>99.07</td>
<td>117.27</td>
</tr>
<tr>
<td>Annual average growth rate</td>
<td>6.97</td>
<td>0.08</td>
<td>1.33</td>
</tr>
</tbody>
</table>

Source: Same as for Table 4.
been above the per capita national income and the gap between the two has increased over time. It should be noted that the public sector enterprises represent the cream of organised employment in India, and include manufacturing sector employees too, but as noted in Table 4, this accounts for only 6.28 per cent. However, the worst-hit are the labourers in the manufacturing sector as their per capita real wages have stagnated and are much less than those of the workers in the other categories considered. One striking feature emerging from this analysis is that an average manufacturing sector worker’s income, which was on par with the national per capita income, has declined to a level way below that of 1991, and the gap between them is widening. Needless to state, there exists a yawning gap between the incomes of employees in the Central public sector enterprises and those in the manufacturing sector. Thus, in the era of trade reforms and associated adjustments, the Central public sector enterprises employees are insulated against the long-run costs of adjustments and are compensated for increases in the cost of living, while labourers in the manufacturing sector slide down in the income ladder.

VI. SUMMING UP

It is conceivable that a shift in economic policy may help in making everybody better-off, but it is also possible that not all sections would benefit equally from such policy changes. The consequences of such a shift in policy regimes could be assessed in terms of the relative gains for different sections, referred to as ‘winners’ and ‘losers’, according to how better or worse off they are in an ex-post regime. The examination of the movements in wages
and employment growth in the organised manufacturing segment of Indian industry in the era of globalisation in this paper reveals that they are the losers in the new environment. As elucidated here, they lose both in terms of growth of employment opportunities and income during the period when trade with the rest of the world got liberalised. This comes in an era of output growth and sustained growth in labour productivity.

The changes in trade policy environment necessitated an adjustment for both the firms and workers, which included both short-run and long-run costs. The analysis undertaken here shows that firms have been able to adjust and try and raise competitiveness in order to survive in the new environment. They have been able to increase the level of investments, thereby inducing labour displacements and enhancing labour productivity. This has resulted in increased profitability and more funds for successive investment plans. With regard to labour, the adjustment has come with more costs than benefits. As employment in the organised manufacturing on the whole has declined, the displaced workers have been pushed either to spells of unemployment or to the unorganised sector. It has also been found that the compensation in real terms for labour has been stagnant while their productivity has increased during this period. The mechanisms associated with adjustment have also resulted in a worsening of distribution within the industrial economy, thereby helping capital to appropriate more share in value added. There has been a relative slide-down in terms of income for the workers in this sector, as the incomes in the rest of the economy, particularly that of employees in public sector enterprises, increased at a higher rate. Hence, in an era when the economy grew faster than before, labour in the organised manufacturing sector seems to have bypassed the growth. Instead of ushering in welfare, the new era has thus pushed these workers to more illfare.

Notes
1. The term ‘illfare’ is borrowed from Harris-White and Subramanian (1999).
2. These studies could be broadly classified into three sets: the first set attempts to identify the ‘growth regimes’ in the economy, the second unravels the factors determining the growth performance, and the third deals with the consequences. See Basu and Maertens (2007) for a detailed discussion of some of these issues.
3. There has been a surge of research in recent times trying to explain this puzzle. For example, see Rodrik and Subramanian (2004).
4. Ahluwalia (2002), and Srinivasan and Tendulkar (2003), for example, are of the view that the policy reforms of the early 1990s played a major role in the growth acceleration.
5. See Roy (2008) for an elaborate discussion.
6. See Balakrishnan and Suresh Babu (2003) for an in-depth analysis of growth and distribution in Indian industry in the 1990s.
7. See Kannan (1994) for an analysis of the earlier period and Balakrishnan and Suresh Babu (2003) for an analysis of recent years.
8. The data on emoluments of Central public sector enterprises employees is taken from the Economic Survey.
References


