One-pager on
Globalization, Growth and Poverty
research
No. 1 • November 2009
IDRC CRDI
Canada

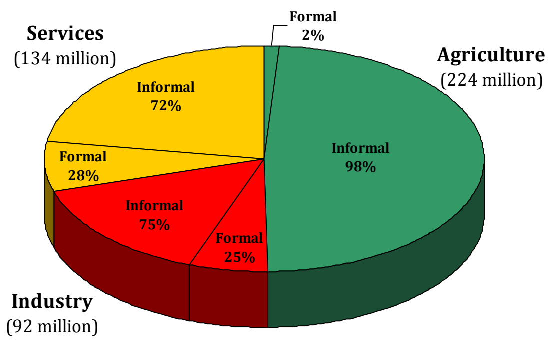
Many jobs, few opportunities

Can uneven growth help India's poor?

THE EVIDENCE

India's labour force is fast approaching half a billion people, with about 8 million people added every year between the early 1990s and 2004-2005. Research conducted for the IDRC project "Globalization, Labour Markets and Inequality in India"[1] shows that a decade of steady economic growth has created an abundance of jobs and decreased the number of people living in poverty. However, it also shows that the growth has been disproportionate and has perpetuated an ever-widening wage gap between the educated, urban and formal workers and the non-educated, rural and informal workers in India.

Formal and informal employment, by sector, 2008-09 estimates



Source: Table 2.7 "Modified Current Weekly Status employment estimates" in *The Challenge of Employment in India Report,* National Commission for Enterprises in the Unorganised Sector, April 2009.

Jobs have been created in service industries like information technology, in large-scale manufacturing operations and in international companies looking to outsource their services.

These jobs, however, have been primarily geared toward India's well educated and highly skilled urban workforce. What has been absent during this period of growth is the development of mid-sized manufacturing enterprises that can provide labour-intensive jobs for India's less-skilled workers — the majority of its population.

The result of this uneven growth and the phenomenon of a "missing middle"—where employment is heavily concentrated in very small and very large companies—has created a situation where India's unskilled, mostly illiterate workers remain largely employed in agriculture, or in informal jobs with low productivity in basic manufacturing or services. It is a situation conducive to the spread of regional inequalities that project leader Dipak Mazumdar says could "sow the seeds of conflict and put the brakes on poverty alleviation."

TOWARD INCLUSIVE GROWTH

Over the last ten years, the number of people living in poverty has diminished. This is largely due to the country's Green Revolution in agriculture. While India has witnessed increased land productivity and improved incomes in the agricultural sector, these developments are not nation-wide and might not be sustainable. In poorer regions with lower land productivity, there is little room for labour absorption in agriculture. India must reduce "disguised unemployment" – where more people are engaged in the work than is required – so that it can maximize the efficiency and output of its labour force.

Outside agriculture, employment opportunities have mostly spawned by the service sector, not by industry. Labour in the manufacturing sector – generally expected to pave the way for employment growth in the modern era – has been absorbed in its informal sub-sector. Moreover, wage differentials across all sectors continue to show great disparities, with earnings among urban workers with higher education being four or five times larger than those of illiterate rural workers. These unequal employment and wage indicators are clearly disappointing and need to improve.

KEY CHOICES

The shift of labour from rural to urban sectors has traditionally been viewed as an important step in the process of economic growth and poverty reduction. To do so, India must invest in a better primary education system — especially in its rural areas. The expansion of employment outside agriculture is closely related to the expansion of education. India must focus on delivering better education to its rural villages, in order to equip potential workers with the basic skills and literacy needed to leave the land for employment in more growth-orientated sectors. Also, India must invest in infrastructure and promote urbanization in order to ensure that such a transition is possible. "Labour reforms are important … but equally important are transformations in infrastructure," says Dr. Montek Singh Ahluwalia, deputy chairman of India's Planning Commission.

Equally critical is to provide the adequate institutional infrastructure for domestic businesses to thrive. The Indian government must also revise its complicated and outdated labour regulations to make it easier for low-level manufacturing firms to evolve into middle-level firms that can absorb more workers. Current laws impose real costs on companies that employ more than 10 workers, and restrict companies with more than 100 workers from firing employees without government consent. In situations where disputes might end up in litigation, mid-sized firms would be the most financially vulnerable. As a result, such regulations have deterred the formation or operation of businesses with no clear gains for workers.

[1] Mazumdar, D. and Sarkar, S. 2008. *Globalization, Labor Markets and Inequality in India*, Routledge/IDRC. Publication from Project #101608, "Globalization, Labour Markets and Inequality in Asia" available at www.idrc.ca/en/ev-117607-201-1-DO_TOPIC.html. For a full interview with Dipak Mazumdar, visit http://www.idrc.ca/en/ev-109181-201-1-DO_TOPIC.html. See also the IDRC news release on the book release at www.idrc.ca/en/ev-121039-201-1-DO_TOPIC.html.

One-pagers are a publication of IDRC's "Globalization, Growth and Poverty" Program Initiative, and are based on findings from the GGP-supported projects referenced in the footnotes. The authors of the work cited are not responsible for the contents of GGP One-pagers. This One-pager was prepared by Edgard Rodriguez.