



## INDIAN LABOUR MARKET: THE POST –LIBERALIZATION SCENARIO

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### **Abstract**

*Improvement in the living conditions of workers is an important goal of development planners and India is no exception. While non-wage aspects are important, wage level is the most important indicator of condition of workers and increase in real wage level signals improvement in condition of labour market. Though most studies compare wages at different points of time from data, they provide an aggregative view without control for that are particular to the family. Opposite to this, ability to move around in wage income following life cycle explanation celebrates the of movement of workers' wage relative to their parents, therefore filtering out household qualities, and providing better measure of workers' conditions and its over time. Stickiness of wage income with respect to parental income leads to constant trying/not going away of across generations and questions the ideal goal of equity in opportunity and openness of any all good people in the world. Leading to lower income and valuable thing possession as well as ability which kept them away from the process of ability and income-earning. When something is kept out or not included and backwardness go past the edge/border of the current generation and spills over to the next generations also. Also of importance is to enquire whether money-based reducing government rules and related to what holds something together and makes it strong good changes have had any effect on the income ability to move around - has ability to move around today more than that in the 1990s? In this paper we explore these issues, throwing light on an up until now neglected area of research in Indian labour market studies income ability to move around, opened to all people across social classes and comparing pre-reform and after-reform results. Though such stickiness over generations is over time, especially in the after-reform period, stickiness is still higher for left out/kept out social classes. Improvement over the last ten years has happened mainly for the scheduled social classes and not for the tribals who are much more related to space or existing in space and because of this outside the orbit of money-based patterns.*

**Keywords:** *Development, Labour Markets, Policy Evaluation, Wages Differentials.*

### **Introduction**

Improvement in the living conditions of workers is an important objective of development planners and India is no exception. While non-wage aspects are important, wage level is the most pertinent indicator of the condition of workers and increase in real wage level signals improvement in the condition of the labour market. Contrary to this, intergenerational mobility in wage income following life cycle theory observes direction & quantum of movement of workers' wage relative to their parents, therefore filtering out household characteristics, and providing the better measure of workers' conditions and its trends over time. The stickiness of wage income with respect to parental income leads to persistence of income inequality across generations and questions the national objective of equity in opportunity and openness of any society. Historically some groups are belonging to lower strata of society due to economic and or social discrimination leading to lower income and asset possession as well as capability formation which excluded them from the process of capability formation and income-earning. With the modernization of society, though the premium on education and skill has increased immensely, not only India but the rich countries also experienced the absolute decline in wage income for the less skilled workers. Also of importance is to enquire whether economic liberalisation and structural reforms have had any impact on the intergenerational income mobility – are workers today better off than their parents compared to workers in the 1990s? In this context, the paper tries to find out the relationship between a person's current wage income/outcome with his family background, more specifically the parental income situation. The moot questions that have been addressed in this paper are – whether income levels have improved over a generation; and, whether there is any social discrimination in wage income mobility. We have concentrated on wage income to link this issue of income mobility with the labour market – to reflect the trends in wage income and labour market situation. The paper thus throws light on a hitherto neglected area of research in Indian labour market studies – intergenerational income mobility, desegregated across social classes and comparing pre-reform and post-reform results.

### **Research Methodology**

In studying intergenerational income mobility, basic objective is to examine whether current generation workers are earning more than their parents, after controlling for factors like age, experience, etc. This can be done in a variety of ways. First, we may simply compute some form of wage income of parents and children, filtering out the effects of age, experience, etc. After that we may examine whether the children's Isolated Wage (wage post-filtering) is higher than parent's Isolated Wage. If the child's wage is higher (lower) than that of the parent by a specific margin (say 10%), we infer that across generation



upward (downward) income mobility has occurred. Otherwise, no mobility has been exhibited. This gives us a measure of absolute income mobility. Second, instead of computing isolated wages as above, we may divide the parents into quintile classes according to their wage income and the group membership. Similarly, the children are also divided in quintiles and the group membership is noted. If the child belongs to a higher quintile group than that of the parent, we conclude that upward income mobility has taken place. This requires construction of the Transition Matrix which cross tabulates children's quintile group membership with that of the parents. This method provides us a measure of Relative Income Mobility as we compare between relative positions of a child within his peers with the relative position of the parent among their peers.

### Labour Policies and the Reform Era

Right to work of one's choice Since protective labour policies and inflexible labour laws are not in the long term interests, flexible labour market policies gained legitimacy in the climate of economic liberalism so as to promote efficiency and productivity of labour and protect them against any hazards. The Indian neo-liberal economic reforms introduced in mid-July 1991 paid rather little attention to employment generation. "It can be said that our labour laws... have been criticised as being ad hoc, complicated, mutually inconsistent, if not contradictory, lacking in uniformity of definitions and riddled with clauses that have become outdated and anachronistic, in view of the changes that have taken place after they were introduced many years ago." The Government of India has in recognised the following rights of workers as alienable to every worker under any system of labour laws and labour policy. These are:

- Right against discrimination
- Prohibition of child labour
- Just and humane conditions of work
- Right to social security
- Production of wages including right to guaranteed wages
- Right to redress grievances
- Right to organise and form trade unions
- Right to collective bargaining
- Right to participation in management.

Along with these rights, workers need many forms of security, like labour market security, employment security, job security, income security, work security, etc. This is one of the most common and most effective criticisms of labour legislation in India.

### Caste and religion by source of income:

The caste and religion breakdown for the formal and informal sectors (self-employed and informal wage labour) show interesting patterns. As one would suspect, Brahmins and people belong to high caste are more likely to be in the formal sector, compared to the lower social castes and Muslims. If we divert our attention to the distribution of people by caste and religion based on the principal source of household income, as depicted in Table 2, we see that Brahmins and people belong to high caste are more likely to be salaried workers or professionals, whilst Dalits and Muslims are more likely to be non-agricultural labourers or artisans.

	Non-Ag labour	Artisan	Petty traders	Business	Salaried	Professionals	Total
<b>Brahmin</b>	56	67	68	136	705	43	1,075
<b>High caste</b>	254	182	277	536	1,429	59	2,737
<b>OBC</b>	875	437	341	446	1,438	56	3,593
<b>Dalit</b>	664	205	105	108	803	18	1,903
<b>Adivasi</b>	97	11	16	35	238	6	403
<b>Muslim</b>	598	295	211	256	471	29	1,860
<b>Sikh, Jain</b>	9	20	32	61	129	5	256
<b>Christian</b>	54	19	4	20	126	6	229
<b>Total</b>	<b>2,607</b>	<b>1,236</b>	<b>1,054</b>	<b>1,598</b>	<b>5,339</b>	<b>222</b>	<b>12,056</b>

Source: India Human Development Survey.

### Labour Market Reforms are Imperative

India's experience of growth during the liberalised regime is rather stunning, but its overall impacts on employment in the organised sector, per worker productivity are not altogether rosy. Work conditions have been deteriorating gradually as employers of this sector prefer to employ workers on a contract basis. However, the hiring of casual or contract labour is not



peculiar in the unorganised informal sector in India. Thus, protection or security of workers is rather a dream workers are at the discretion of the employers. It is also observed that employment discrimination against women workers has increased substantially in the reform period though empowerment of women is considered an important avowed objective in India. In addition to declining employment opportunities in the organised sector, we see that wages are not increasing in commensuration with the workload that the workers carry now. In fact, labour market in India is now showing a great deal of inefficiency and a high cost structure economy. Rigid institutional structures in the labour market need to be made flexible and transparent, it is commonly alleged that the employment growth in the organised sector is largely impeded by 'the prevalence of excessively rigid labour laws' (11th Plan Document). It is found that in India there are 45 laws at the national level and close to 4 times that at the State levels that monitor the functioning of the labour markets. It is, thus, necessary to review the existing laws and regulations so that the (i) corporate sector can be induced to adopt more labour intensive sectors, and (ii) unorganised sectors which are traditionally labourintensive sectors are encouraged to facilitate the expansion of employment.

### Different Aspects of Labour Market Regulations

Against the backdrop of current liberalised Indian economy, we can say that as changing labour laws is a sensitive issue it requires consensus among all the parties involved. The three issues involved in the labour market regulations are: (i) the wage setting process, (ii) the labour market conditions, and (iii) the hiring and firing process. The issue of labour reforms has been a source of debate since the reforms era begun in 1991 when the State withdrew itself from intervening the labour market. Flexibility in the labour market is of urgent necessity. But in the name of flexibility in labour laws, one must not ignore the interests of labour so that their jobs are not threatened. Thus, labour market reforms must ensure greater flexibility to our firms and employers in such a way that labour is adequately protected against any casualties. A belated attention was made by the Government on the need for bringing about changes in the labour laws in 1999 when the Second National Labour Commission was constituted. The Commission was asked (i) to suggest nationalisation of existing labour laws applicable in the organised sector, and (ii) to suggest 'umbrella' legislation for insuring a minimum level of protection to workers in the unorganised sector. The two aspects of labour reforms that have come to the surface in recent times are Chapter V-B of the Industrial Disputes Act and the Contract Labour (Regulation and Abolition) Act.

### Wage Income Mobility in India

Matrix Approach As noted earlier, weekly wage of father and child at the time of survey cannot simply be compared because the point of time considered in collecting wage income are different for father and child in their life-cycle. Father's wage will contain impact of age and experience which need to be isolated for both father and children. This kind of impacts shall vary across occupation – some occupation may provide premium to age/ experience (like those engaged in service, administration, technical and professional) , other may negatively treat age (manual types of job). So impact isolation must be separately done for each generation and each occupation. A double isolation method is used here where both father and child's Isolated Wage Income is derived after controlling for age, experience, and occupation. This is done by regressing actual wage income of son (father) on respective Age, Age squared, and Age cubic separately for each occupation classification. Using the regression results estimated wage is calculated separately for child and father, providing us with Isolated Wage figures. Thus what we are left with is the influence of educational achievements within income.

### Caste and religion by occupation

When we look at the distribution of occupations by caste and religion, we note that Brahmins and high caste people are more likely to be in the higher level occupations, while Dalits and Muslims are more likely to be in the lower level occupations.

	Brahmin	High caste	OBC	Dalit	Adivasi	Muslim	Sikh, Jain	Christian	Total
Professions, Technical and Related Workers	195	280	245	105	49	72	27	22	995
Administrative, Executive and Managerial Workers	135	357	427	147	28	243	35	27	1,399
Clerical and Related Workers	188	329	361	191	50	84	23	24	1,250
Sale Workers	190	746	765	235	52	445	97	21	2,551
Service Workers	71	172	210	248	44	87	11	18	861
Production, Transport and Labourers	159	551	1,236	799	141	732	41	67	3,726
Missing	137	302	349	178	39	197	22	50	1,274
<b>Total</b>	<b>1,075</b>	<b>2,737</b>	<b>3,593</b>	<b>1,903</b>	<b>403</b>	<b>1,860</b>	<b>256</b>	<b>229</b>	<b>12,056</b>

Source: India Human Development Survey.



### **Absolute Income Mobility**

We define upward mobility if isolated wage of child is higher than that of his father by a specific proportion since a meagre rise in wage for child compared to his father cannot be termed as upward mobility. We accept as upward income mobility if child's wage income is at least 10 per cent higher than his father, whereas if it is 10 per cent lower than his father, downward mobility is said to have occurred. If child's wage income is within 10 per cent above or below that of the father, we considered income mobility to be absent. It is observed that absolute wage income mobility has been low and only about 22-25 per cent of 20+ male workers have higher wage income than that of their father. On the other hand about two-third of such workers have lower wage income compared to their father, after controlling for age, experience, occupation, etc., while the rest of them have not shown any noteworthy change. These low upward mobility in absolute wage income figures is consistent over the period 1993 to 2009, rather it decreases by 3 percentage points from 1993 to 2009, though during this period Indian economy grew significantly. It therefore seems that the post reform period of high economic growth has not been able to improve the condition of the wage workers vis-à-vis their parents by much. If any, majority have had lower status than their parents at comparable position in their life cycle, while the proportion of workers having higher income compared to their parents has declined over this period. This indicates presence of a labour market with low returns from work.

### **Relative Income Mobility**

As mentioned earlier we have also used transitional matrix approach to derive wage income mobility. We have computed quintile membership of fathers and sons with respect to both actual wage income and isolated wage income. Cross tabulation of quintile groups of father and child gives us the transitional mobility matrix. Obviously the diagonal element of the matrix represent no change in relative mobility status whereas the sum of upper right portion of off diagonal element represent upward mobility when father quintile groups are placed in rows and child quintile groups are placed in columns. Similarly the sum of lower left portion of off diagonal elements represents downward mobility. Relative Income mobility in terms of actual wage was close to 20 per cent in 1999, increased to 26 per cent in 2004, but decreased sharply thereafter to 18 per cent in 2009. Similar picture is observed in case of relative income mobility in terms of isolated wage, though the figures are higher than absolute wage mobility. It is thus evident that income mobility in India has been low and definitely declining in the second of the post-reform period, i.e. during 2004-2009 period. Mobility and Social Group Table 8 gives us the all the three measures of upward mobility figures across different social groups over the period 1993 to 2009. We tried to understand whether modern Indian labour market discriminates against different social groups resulting in different income mobility.

### **The challenge of unemployment**

The India Labour and Employment Report 2016 of the Institute for Human Development present compelling evidence of how the employment situation has improved during the 21st century. India's highly segmented labour market and the many shades of employment, underemployment and unemployment imply that little meaning can be attached to simple statistics about the total level of employment or the rate of unemployment. With skilful use of the National Sample Survey Organisation's well-designed employment surveys, principal author Ajit Ghosh, formerly of the International Labour Organization, has demolished several myths and misconceptions about the unemployment situation in India. Not all people in the working age population are in the labour force, i.e., available for work. The story of employment and unemployment essentially relates to this stock of about half a billion people. This is followed by regular but informal employment in the organized sector, without full contractual protection of labour rights and lower wages. Next, there is regular but informal employment in the unorganized sector, followed by casual employment in the unorganized sector, and finally self-employment. Thus, an aggregate figure of employment will always approximate the size of the workforce, and tell us little about the actual condition of the labour market. Employment in the organized sector has grown aggressively, faster than in the unorganized sector, with a fairly high growth elasticity of employment at 0.7. This assessment of the improving structure of employment and conditions of employment should now put an end to the long debate about jobless growth. All the improvement notwithstanding, the organized sector still accounts for only 17% of total employment, with regular formal employment in the organized sector, the best quality jobs, accounting for only 9%. Self-employment, and casual wage employment, the bottom layers of the labour market, still account for 78% of total employment. Low-productivity employment in agriculture still accounts for 43% of total employment, and the incidence of underemployment is still very high. What is the scale of the employment challenge that needs to be addressed? There are around 13 million people in the workforce, available for work, who are at present unemployed, 30% of them women. Then there are another 52 million, all women, who are not in the labour force but would be available for work if there were adequate opportunities for productive employment.

### **Conclusion**

The labour market must be made more flexible in the days to come so that labour force shifts slowly from the unorganised area to the organised ones. Trade as well as workers of the organised area believe that labour market reform is anti-labour.



Flow-ever, the Second National Labour Commission Report goes on stating that these labour laws 'have to be visualised and made happen in a wider of infrastructural facilities, social security, and Government policies.' The Commission adds that it is necessary to provide for both serving or acting to prevent harm and related to telling a lot of people about something measures, the last thing just mentioned being highly for the workers in the unorganised area. Stickiness in wage income across generations is high in India and remained so throughout the after-reform period. Such constant trying/not going away has been higher for the kept out groups than advanced ones, though there have been some improvements for the SC/OBC groups. Ability to move around rates are therefore low and in can be safely guessed that living conditions of the workers have not improved very much from their parents furring this period. One of the reasons behind higher ability to move around of left out/kept out classes compare to advanced groups in recent times has been low base wage income of these groups. The labour market this way provides a picture in India. Workers' conditions across generations have not been improving in an acceptable way, there still exists unfair treatment based on skin colour, age, etc. Across social groups, and returns from wage labour have generally flattened out. This point show that the last twenty years of related to what holds something together and makes it strong changes and openness in Indian may have led to significant macroeconomic growth, it has not gave very much in improving overall labour market situation. Stickiness is high pointing showing working of an evil and violent trap cycle across generations, which is reflected in increasing social. The state should immediately look at this issue and take steps to translate money-based growth into a more visible and improvement in the lives of the working mass.

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