

Unorganized Sector – Intentions vs Outcomes

One of the great challenges confronting India is amelioration of the plight of the unorganized workers. NSS estimates show that about 370 million workers belonged to this category in 1999-2000. Of them, about 240 million are engaged in agriculture as owner-cultivators and wage labourers. Of the remaining 130 million non-agricultural workers, about 40 million are engaged in manufacturing, 37 million each in trade and other services, and the remaining in construction.

Significantly, the size of the unorganized/informal sector has been growing in India. The total work force in unorganized sector was 89 percent in 1971, but grew to 93 percent by 2000. Usually, as the weight of agriculture in the economy declines and manufacturing and services grow, we expect more workers engaged in non-agricultural occupations. And as industry and services become more and more sophisticated, and economies of scale force aggregation in a competitive market, more workers should be in the organized sector with regular, relatively secure wage employment. But the trends in India are contrary to these expectations in a growing economy.

Clearly, employment generation is far short of economic growth, and low-level skills make many 'educated' youngsters unemployable. But the most important cause for growing share of unorganized sector is the well-intentioned, but misplaced state policy. At about 7 percent per annum, India has fairly rapid growth. But overly regulated labour markets have played havoc with our employment. Despite several-fold increase in our manufacturing and services over the past two decades, there is hardly any increase in the number of workers engaged in the organized sector. Anecdotal evidence corroborates this empirical evidence. Most employees are reluctant to hire new workers, even as rapid expansion is taking place. This is particularly true, as the monopolies created by the license-permit raj have disappeared. Now every enterprise has to survive on its own in the market. Quality of the product, price advantage, and effective marketing are crucial as trade barriers disappear. With rapid obsolescence of technology and changing demand patterns, an industry that is flourishing today could be in doldrums tomorrow.

In such a climate, the employer needs the flexibility to rapidly expand or reduce production, and to diversify. This in turn demands flexible labour markets. If a worker hired in times of prosperity becomes a liability in time of adversity, then the industry will find ways of minimizing risks in a fluctuating market.

Our policy makers over the decades have been motivated by high principle. But often the way to hell is paved with good intentions. High minimum wages, excessive regulation, near-impossibility of removing errant workers, and the

frightening prospect of being burdened with huge wage and retrenchment costs when the inevitable downturn comes – all these mean that no prudent employer today hires workers if he can possibly avoid it. Therefore labour-displacing technology, outsourcing, and contract workers have become the norm.

The evidence from most of the world too is compelling. The US has flexible labour markets and minimal regulation. The result is more working hours, greater production per worker, and higher employment. Contrast this with Europe, where there is far greater regulation and employee protection. The unemployment rates in Europe are almost double that of the US. In Germany, France and Italy, unemployment exceeds 10%. As the Economist (March 19, 2005) points out, “The evidence that excessive interference to “protect” people in work penalizes those out of work has seldom been as clear as in Europe over the past five years”. This is the lesson our policy makers have not internalized. That is the reason why the entrepreneurs are adjusting to the conditions of the market, and hiring casual workers or outsourcing many jobs to keep pace with expanded capacities. More and more people are finding employment in the unorganized sector, albeit at lower wages and with less job security. That is why despite our poverty the urban unemployment levels are relatively low at 4.8%.

The fact, however, remains that excessive protection to a small number of the relatively well off workers in organized sector is denying employment to the bulk of the people outside, and impoverishing them. And yet, serious labour reform is resisted on the ground that it is “anti-labour” and “anti-poor”. There cannot be a greater gulf between intentions and outcomes!

Recent efforts to give some degree of protection to unorganized workers illustrate the dilemmas facing the government. The draft Unorganized Sector Workers’ Bill – 2004 is symptomatic of the traditional mindset plaguing our public administration. The Bill seeks to create a top heavy structure and a large bureaucracy. A Central Workers’ Welfare Board, and State Boards are envisaged. Workers’ Facilitation Centres are proposed to be established for registration of workers and employers in the unorganized sector, and ostensibly to ‘guide’ and ‘educate’ the workers. The government will formulate schemes for ensuring safety, social security and welfare of the workers. In order to implement these schemes, a Welfare Fund is to be created, to which the workers and the employers each contribute 5% of the wages and the Union government will contribute 2.5%. Where employers are not identifiable, the State government will contribute employers’ share. In other words, the workers and employers are expected to contribute hefty sums to the bureaucracy in the hope that some future good will emerge out of the Fund.

The experience of Employees State Insurance Scheme and Central Government Health Scheme shows how little the employees get in terms of value for the money deployed. Corruption, inefficiency, poor quality services, inadequate coverage and callousness are ubiquitous in all such state-administered schemes.

But such schemes are at least feasible because contributions are deducted at source, as they deal with organized sector. However, in case of unorganized workers, the assumption that poor, daily-wage workers eking out a precarious livelihood will gladly part with hefty sums of money every month in the hope that a benevolent state apparatus will guarantee their welfare in the future is highly questionable.

Unorganized workers need dignity, security and opportunity. But the Bill in the current form is certainly not the right way to ensure these. We need to devise more practical, effective and citizen-centered set of security measures. Social security involving direct payments through citizen-friendly institutions like post offices, quality healthcare through innovative risk-pooling mechanisms ensuring choice and competition, a massive programme to upgrade the skills and make the workers more productive and employable, increased credit flows through thrift cooperatives and microfinance institutions, and a large housing programme with citizen-involvement and ownership – all these should form part of a package to protect the poor and vulnerable population in the unorganized sector. Good intentions are no substitute to practical, sensible policies and effective, citizen-centered execution.

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