



## Covid Pandemic, Welfare State, and Informality in India's Manufacturing Sector: A Perspective


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This paper attempts to highlight the need for extending formality in India's manufacturing sector to protect workers against any COVID like pandemic. The source of informality in India's labour market lies in the low education and skill level in the labour force. The major databases, notably NSSO and ASI, on Indian industrial sector underlines this aspect. Among other factors, informal employment in India's manufacturing sector increased vulnerability of workers during the COVID pandemic. In addition, absence of welfare state policies further added to their sufferings. The policy silence of the union government over suspension of labour laws in select states during the pandemic was further endorsement of informalisation of employment. While such policy interventions do not provide any hope to the informal workers, they exposed banality of the market economy policies for welfare of the workers. We argue that unless the government revives welfare state and boosts formality, India may take very long time to spur inclusive growth and resume the process of sustainable economic development.

**Keywords:** Pandemic, Market Economy, Informal Worker, Welfare State, Economic

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## Introduction

Informality of India's labour market poses a great challenge to achieve inclusive growth and labour absorbing structural transformation. This is argued by scores of the existing studies (Mehrotra, 2020a; Thorsten and Hoseine, 2014). It also reflects that welfare role of Indian state has become very thin given more than 427 million labour force of the country. As informal workers have very low income levels and are often engaged as own-account workers, an outbreak of any epidemic or disaster may ruin their lives. The COVID pandemic has exposed their vulnerability and highlighted the policy need for formalising India's labour market as it has hit informal workers very severely. Estupinan and Sharma (2020) estimated that as many as 175 million informal workers lost jobs during two lockdowns in the wake of COVID-19.

The outbreak of COVID-19 pandemic has forced various governments of the world to revive welfare state to protect their citizens from both the pandemic and predatory forces of the market economy. In many COVID hit countries, government transfers have increased indiscriminately in the form of unemployment allowances and other welfare measures (Makin and Layton, 2021). In their comparison, the welfare measures that Indian government took were not only very scanty and inadequate, but also shallow in substance. There was no unemployment allowance given to anyone. On the contrary, government induced supply side inflation as the fuel prices were hiked many times. Nevertheless, the union government was busy with diplomatic and political activities notably. All these instances highlight not just mismanagement of the government in handling the COVID-19, but also poor role of India's welfare state.

### Please insert Table 1 Here

The welfare state has never been ominous and strong in India compared to the European counterparts (Schipor et al., 2016). The core issues like human resource development and peoples empowerment caught little attention of the policy framework unlike the policy augmented human capital formation of the East Asian countries. Consequently, size of the informal sector continued to bulge out as revealed by table 1. However, it had not consigned all government assets to the private capitalists before the economic reforms

Of the early 1990s. It worked largely for food security and poverty alleviation through various policy interventions. During the pandemic also, relief measures were mostly for distribution food grains only. A specific government programme that was launched with much fanfare turned out to be an eyewash. In retrospect, we observe that the union government has not done anything substantial for fighting the COVID (Earth, 2021).

Low human development promotes informal employment. In past seven decades since independence, India's policy framework has not prioritised human capital formation the way it was done in the East Asian countries and thus majority of workers continue to end up in the informal jobs. Barring this, country has developed a solid economic base though economic planning till disintegration of the planning commission recently. This is reflected in the form of economic infrastructure, institutions of public health and education, banking system, and other constitutional institutions. However, India's persistent failure to socioeconomic challenges particularly formal employment seems to be an outcome of inefficient political leadership. We argue that the huge size of informal employment has aggravated the living conditions of people during COVID pandemic.

## Literature Review

Even though informalisation or casualisation in India's manufacturing sector has been pushed by global factors, the roots of the problem lie in industrial policy interventions since the decade of 1970s. Contractualisation was an outcome of multiplicity of labour legislations, low education level among labour, high capital intensity across industries as discussed in previous chapter. Despite positive spillover effects for the formal sector, it has constrained the economic growth to be inclusive though there are contrasting views about it in the existing literature.

The proponents of market economy blamed labor laws for stagnation of manufacturing sector (Ghose, 1994). The critics found little evidence for such an inference (Anant et al., 2006). Despite all merits for addressing many socio-economic issues, the multiplicity, inconsistency, and arbitrary implementation of labor laws has been a critical factor leading to the contractualisation of workforce in at least in the organised manufacturing

Industries. The multiplicity of labour legislations and their arbitrariness has discouraged manufacturing sector. On employment protection legislations (EPL), many economists have argued for diluting jaws of these legislations to improve performance of the sector (Fallon and Lucas, 1991; Lucas Jr, 1993; Besley and Burgess, 2002; Dougherty, 2008). In India's context, there are many other studies that have underlined severity of labour legislations (Ghose, 2005; Roy, 2004; Panagariya, 2008). However, others refuted these arguments for several flaws in their methodologies (Nagraj, 2004; Schmidt, 2005; Chaudhuri, 2015; Anant et al., 2006). They also argue that there were instances of blatant violations of these laws in the post reforms period. There are several others who denounce labour market informality by saying that it leads to income inequality as labour has weak bargaining power (Jose, 2008; Sharma, 2006; Rutkowski 2006).

Dev et al. (2020) argue that the impact of COVID pandemic is larger on informal economy than formal sector. It has unleashed health and economic crises which will require social protection measures by the governments. Sahoo and Ashwani (2020) also highlight the vulnerability of informal workers due to COVID hit disruption of economic activities. The labour intensive sectors has been one of the most affected by COVID restrictions. In the existing literature, the topic of informality has received huge space and deliberations from scores of scholars and researchers. However, issue of social protection or welfare state was not much discussed particularly in the mainstream economic literature until the outbreak of the COVID-19. In other words, mass sufferings in India's huge labour market has underlined the need to revive policies of the welfare state. Therefore, we would like to explore the informality in manufacturing sector in the context of COVID induced welfare state.

## **Research Methodology and Data**

The ferocity of the COVID pandemic has blown astronomical due to inadequate social protection for informal workers. In this paper, we have used descriptive research methodology since we aim to highlight the absolute necessity of formal employment if a virtuous labour absorbing transformation of India is to be achieved. We

Have used data from National Sample Survey Organization, Annual Survey of Industries, and UNESCO to trace dynamics of informality in India. We have used table and graphs to display skill and education level of labour force.

### **Informality and India's Labour Market**

Even as there are multiple labour regulations for workers of the organised manufacturing sector, India's labour market is quite flexible for a huge size of the unorganised sector. Many factors shape the labour market of a country. However, there are some concerns since a very large number of youth (25 million) falls in category of open employment. Mehrotra and Parida (2019) have shown that rise in number of open unemployed youth was very high which increased by 16 million over period (2011-12/2017-18).

The dualistic structure of India's labour market is a matter of great concern for achieving inclusive growth. The foremost concern relates to high and rising informality of jobs and low skill formation in labour. This challenge gets multiplied every year with addition of 5 million people to the workforce annually in India. The labour force participation rate (LFPR) is very less (56 per cent) in India compared to world average. So, both labour force participation rate (LFPR) and the share of the organised sector in employment growth must increase.

With rising labour informality status of labour has become unclear in terms of regular or contractual labour and thus calls for setting up institutions to enforce labour regulations protecting labour. Thus, labour inspection is crucial for protecting labour interests. Recently, the government of India also announced a Labour Inspection Scheme to bring transparency in industrial regulations. We argue that while transparency in industrial regulation will boost industrial growth, skill formation among labour will enable them to mitigate harshness of contractualisation.

#### *Skill gap and contractualisation*

The shortage of skilled labour and intense import competition induced capital and technology intensity in India's manufacturing sector in the post-reform era. The rising capital intensity in the manufacturing production is one of the key factors pushing contractualisation in India (Singh, 2020).

With booming economy, demand for skilled manpower grew. However, there was a shortage of skilled manpower<sup>8</sup> and skill mismatch at industry level (Mehrotra, 2014). This highlights the extent of skill deficit and thereby rising demand for contractual and casual workers.

Contractual jobs for unskilled labour are less rewarding than for skilled workforce. Low productivity level is a reflection of low skill content and education profile in this segment of the labour force. A very small proportion of youth has received any vocational training respectively as mentioned in figure(1). It reveals that as large as 30 percent labour force is absolutely not useful for modern industries for being illiterate. Another 41 percent which comprises labour having education below primary, primary, and middle level. It means 71 percent of total labour force is not fit for industrial employment as they do not have requisite education and skill.

Figure(2) carries distribution of skilled labour force across select countries. In this respect, India ranks lowest as share of labour with vocational education is below 2 per- cent. This is an outcome of lack of adequate policy on skill formation and network of technical institutions. Mehrotra (2020a) has argued that low levels of education and skills of the workforce are one of the key supply side factors behind informalisation of jobs.

Please insert Figure 1 and figure 2 Here

Similarly, there is a huge gap between number of skills sets<sup>14</sup> which are provided in china and India. The government of India launched the National Skill Qualification Frame- work<sup>15</sup>. There are various constraints on developing an environment for skill development which relate to the policies of industrial and human resource development. So far, government technical institutions<sup>16</sup> have done this job. However, its capacity is limited and it will remain so if industries don't take the onus of skill development like in most of industrialised countries.

As mentioned earlier, the manufacturing production has become capital and skill in- tensive in the post 1990s. This is true for the world manufacturing production. Barring industries such as leather, apparels, wood products, processed foods, beverage and tobacco, the labour content has gone down since 1995. All these industries have

Low growth in the value-added. Therefore, it is skill level and policies that promote job growth will enable youth to get jobs in the organised manufacturing sector, not just battery of the labour laws will ensure employment growth. The demand for skilled labour hinges on performance<sup>17</sup> of the manufacturing sector. Skill shortage on supply side and excessive regulation of the organised manufacturing on demand side lead to rising informal jobs in India. We argue that vulnerability of informal workers can be mitigated if a social protection framework is created.

#### *Labour informality and social protection*

The informalisation of labour is an outcome of inappropriate industrial policies that were implemented in the pre-reform period (1950-90). As revealed by Table 2, rising contractualisation in the organised manufacturing shows that informality has increased sharply in the post reforms period. Islam and Lapeyre (2020) argue that presence of informal sector is a huge stumbling block to achieve structural transformation in low income developing economies. In this context, the ILO<sup>18</sup> underlines its concern for such economies to make a transition to the formal economy and suggests that development strategy must incorporate tools to realise this goal.

The industrial policy interventions were responsible for the expansion of the unorgan- ised manufacturing sector which comprised factors on both supply and demand sides<sup>19</sup>. Besides, low level of education and skill among labour made them capable of finding work in the unorganised sector only. Consequently, labour productivity remains very low in the sector.

Please insert Table 2 Here

India is one of them where incidence of informality is around 93 percent of total work- force which makes us at par with the Sub-Saharan Africa (SenGupta, 2009). The unprecedented import liberalisation led to mounting pressure on India 's labour market (Babu, 2009). The global capital has successively become powerful in production relations, vis-a-vis labour due to changes in the policy framework after 1991. The use of technology has increased over the years in the the post-reform period (Das and Kalita, 2009; Goldar and Aggarwal, 2010; Kapoor, 2016). While it is essential to reduce size of informal sector,

Policy interventions in the the post-reform period have not been concrete on this except for introducing the GST and bringing informal workers under EPFO ambit.

The industrial policies concentrated on either heavy industrialisation or restrained its natural expansion by erecting complex industrial regulations. In the context of 'demographic dividend &rs quo;', it is essential to expand the size of the organised manufacturing sector. We argue that bureaucratic hurdles of the pre-reform period rather than economic reforms were the key determinants of contractualisation.

## Findings

The policy shift of the early 1990s was much obsessed with the notion of market efficiency to correct shortcomings of the resource redistribution through welfare state mechanisms. This shift in economic philosophy did not create any turbulence in society as there were no concurrent social and political disruptions. Even as all promised solutions of privatisation to economic challenges such as unemployment, poverty, and inequality were not delivered, there was no loss of public trust in government and institutions of democracy. So, forty years before the economic reforms of early 1990s and thirty years afterwards saw rising corruption and inefficiency in governance. While corruption and scams grew even gigantic in the post reforms period, human capability formation was stalled as policies of welfare state were scrapped since the early 1990s.

Even though India has achieved a relatively higher economic development in the post- independence period, it has remained very low in the cross-country perspective particularly the East Asian region countries. Human development has a causal connection for raising total factor productivity of the economy. This has become very clear from the experience of countries in this region. Unlike the western European countries, their economic growth and prosperity had resulted from the proper utilisation of human resources. The capability deficit among the poor youth constrained their entry into the formal sector and blunted their prospects to become the part of economic mainstream. In other words, the economy failed to realise the potential that youth holds for economic growth, carry out structural trans-

Formation, and achieve high level of economic development. The outbreak of the COVID pandemic has not only revealed deficiencies of the market economy model, but also under- lined the urgent need for reviving the welfare state. This revival must be centered around human capital formation and formalisation of employment.

## Limitations

In the paper, we have attempted to highlight vulnerability of informal workers in India's manufacturing sector as a whole. We have outlined broad estimates of the informalisation and contractualisation. We have tried to look at informality from the lens of welfare state after outbreak of the COVID-19 pandemic. We believe a deeper analysis of this topic could have been done had we focused our attention on labour intensive industry groups.

## Concluding Remarks

High level of informalisation in India's manufacturing sector is an outcome of policy interventions since late 1960s. It is a reflection of deep-rooted structural weaknesses of the economy which had stemmed from political economy of industrialisation. The reforms had merely aggravated and brought it to the centre of growth discourse. The share of contract workers was about 14 percent before 1991 which picked up from 1999-00 and grew very fast from 2005 onwards. The COVID pandemic has further aggravated living conditions of informal workers as they are not covered under social security net barring recent policy initiatives.

The inability of industrial policies to address other aspects of labour market such as duality, skill formation, and harnessing demographic dividend in pre-reform period(1950-90) was also responsible for expanding informality in manufacturing sector. Even though decision of the government to introduce economic reforms was well-planned, domestic manufacturing sector and labour market were not equipped to face competitive demands of market economy. So, little surprising that no sooner had reforms been introduced than import competitive blew off employment and economic security of labour. The import competition unleashed forces of industrial automation and led to rising capital intensity in manufacturing sector.

Informalisation grew further to face import competition and non-expansion of social protection floor for informal economy further pushed workers to the margins. Mass sufferings due to COVID-19 in India has exposed faults in India's policy framework which must be corrected if economic development has to revive.

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**Table 1: Informal Employment (PS+SS) by sector (in Million)**

Year	Sector	Informal	Formal	Total Workforce	% of Informal
2004-	Informal Sector	400.8	1.3	402.1	99.7
	Formal Sector	27.9	29.9	57.8	48.3
	Total	428.7	31.3	459.9	93.2
	% of Informal	93.5	4.3	87.4	106.9
2011-	Informal Sector	374	1.5	375.5	99.6
	Formal Sector	58.5	40.2	98.7	59.2
	Total	432.5	41.7	474.2	91.2
	% of Informal	86.5	3.5	79.2	109.2
2017-	Informal Sector	369.3	2.5	371.8	99.3
	Formal Sector	51.6	46.2	97.8	52.8
	Total	420.9	48.7	469.6	89.6
	% of Informal	87.7	5.1	79.2	110.8

Source: Unit level NSSO data

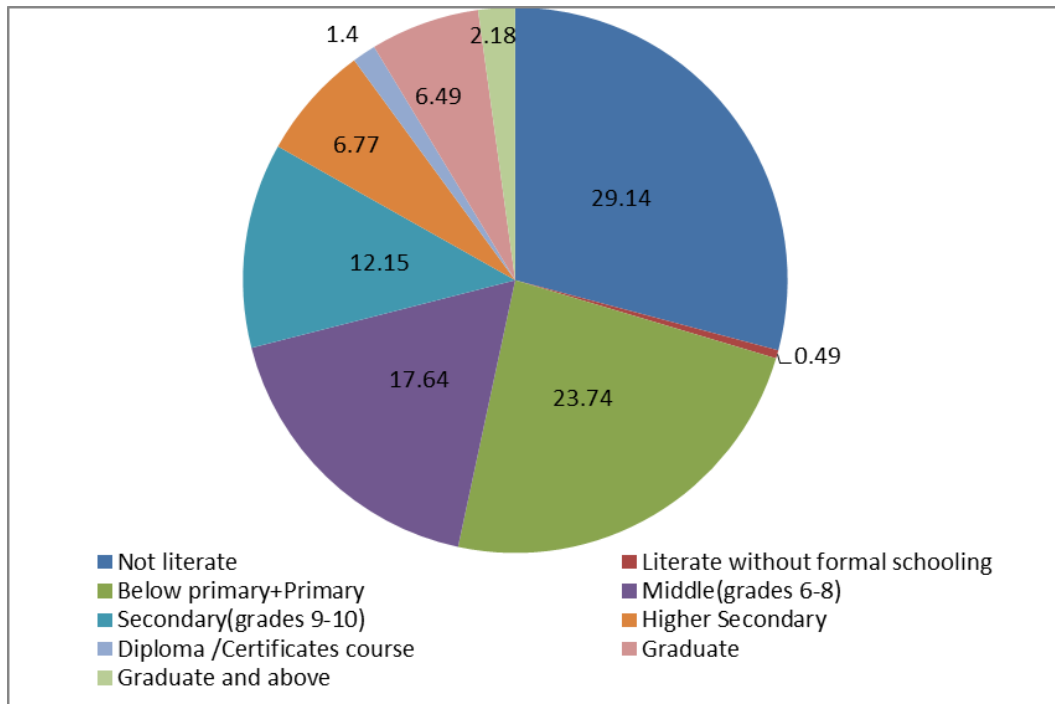
**Table 2: Contract workers out of total workers (%)**

Industry	1999	2004	2009	2014
<b>Low tech industries</b>				
Food products & Beverages	20	24	29	32
Tobacco products	13	61	71	23
Textiles	10	12	15	17
Apparels, Dressing & Dyeing of fur	5	8	13	13
Tanning and dressing leather	11	17	14	21
Wood & products	6	15	24	29
Paper & paper products	18	26	29	30
Publishing, Printing & recorded	3	9	14	21
Furniture & Mfg.	17	17	22	27
<b>Medium tech industries</b>				
Coke & refined petro products	20	35	56	51
Basic Metals	23	28	40	45
Rubber & plastics	11	20	28	37
Other non-metallic products	36	40	53	61
Fabricated metal products except machinery equipment's	17	34	41	42
<b>High tech industries</b>				
Chemicals & Chemical products	17	26	35	44
Office, accounting, and computer machinery	5	18	31	34
Machinery Equipment's	8	17	31	34
Electrical equipment's	11	18	34	41
Medical, precision and optical instruments, clock& watches	4	10	34	33
Motor Vehicles, trailers, semi trailers	12	23	38	43
Other Transport Equipment's	27	23	42	48
<b>All Org Mfg. sector</b>	<b>16</b>	<b>25</b>	<b>32</b>	<b>34</b>

Source: Author's calculation based on ASI data

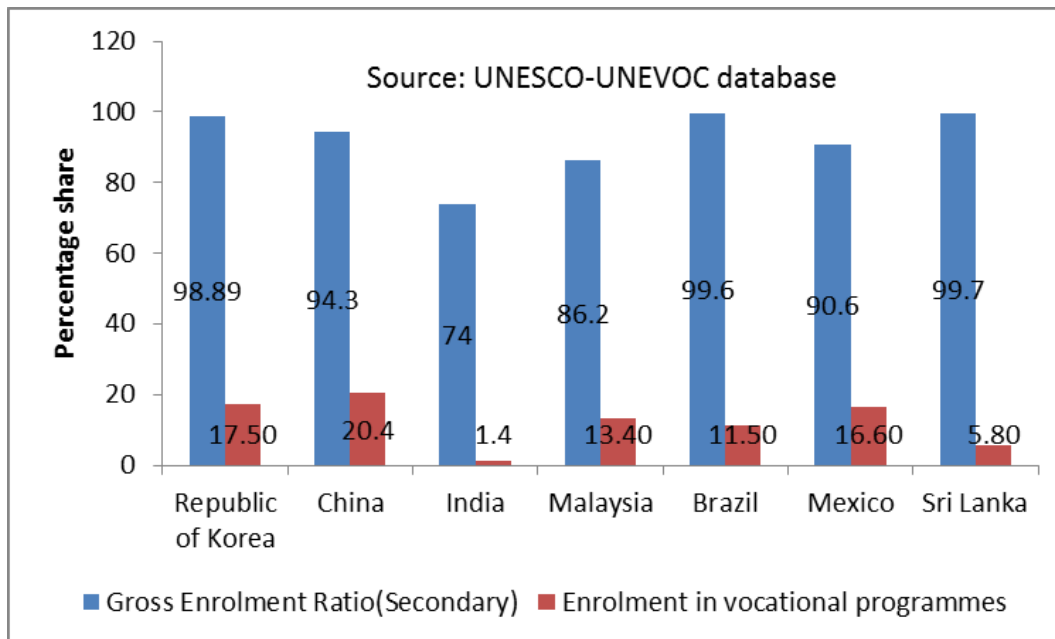


Figure 1: Percentage share of labour force in 2011 in age group (15-59)



Source:(Mehrotra, 2014)

Figure 2: Distribution of skilled labour force in select countries



Source: UNESCO-UNEVOC Database