

Employment And Liberalisation Policy: A Comparative Study Of The Organised And Unorganised Sectors Of India.

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Abstract

The introduction of a liberalisation policy brought about a structural shift in the economy of India. Creation of new jobs, reduction of government intervention, private sector engagement, increased competition, and others gradually change the labour market of the country. The changes seemed to appear in the employment patterns of the organised and unorganised sectors, the two components of the labour market. In this paper, an attempt is made to compare the employment situation and growth between the organised and unorganised sectors of India. The comparison is made keeping in view the impact of liberalisation policy.

Keywords: *Indian Economy, Liberalization Policy, Disparity Index, Compound Annual Rate of Growth.*

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I. Introduction:

The labour market of India is composed of two sectors, viz., the organised and unorganised sectors. The organised sector refers to those businesses and industries that are registered in the market, abide by labour laws and regulations, and uphold particular employment standards. This sector is more structured, with greater employment opportunities and higher pay. The areas covered by this sector are manufacturing, extensive agriculture, the public sector, corporate entities, and others with mostly skilled and semi-skilled workers. Workers in this sector frequently had access to organised labour unions, higher social security benefits, and better working conditions. The unorganised sector is the one that includes a vast variety of economic activities that are not subject to any standard labour laws. Small-scale agriculture, street vending, household labour, construction, and several other low-skilled activities are included in this sector, among many others (Kalyani, M. , 2016). The liberalisation policy introduced in 1991 changed the industrial as well as employment landscape of the country (Goldar 2000). Before the initiation of the policy, the employment setting was characterised by a significant division between the organised and unorganised sectors. The strict labour laws and regulations made it difficult for the organised sector to hire and fire employees quickly, for which employment in this sector was relatively limited. Before liberalisation, despite the fact that the unorganised sector in India accounted for the majority of employment, workers frequently experienced job insecurity, low pay, a lack of social security benefits, and unfavourable working conditions. Workers engaged in self-employment, regular-wage, or casual work were characterised by irregular income and a lack of legal protections. Prior to liberalisation, the organised sector was generally smaller but offered more secure and stable employment opportunities. On the other hand, although the unorganised sector provides immense job opportunities, these positions are typically unstable (International Labour Organisation Report, ILO 2002).

A series of economic reforms were implemented as part of India's post-liberalisation programme of 1991 that aimed to reduce government intervention, increase private sector engagement, and open up the economy. Both the organised and unorganised sectors were significantly impacted by these reforms in terms of employment. In the organised sector, some industries like information technology, telecommunications, and services have grown as a result of more Foreign Direct Investment (FDI) and technological advancements brought on by liberalisation policies (D'Souza, P.A., 2013). The need for skilled people expanded notably in these industries. This change also had an impact on the landscape of education and training. Liberalisation indirectly influences the unorganised sector, where the majority of people in India work. Although liberalisation promoted indirect expansion, numerous people kept working in low-paying, informal occupations with restricted access to social security benefits. Economic changes due to liberalisation encouraged people from rural areas to migrate to the cities in search of better employment possibilities in the expanding metropolitan

areas (Gupta and Sanjay 2012). As a result, there was an increase in the number of unorganised workers in metropolitan areas, where people frequently worked in low-skilled jobs like domestic work and construction (Sansiya P. 2013).

Hence, employment in the organised and unorganised sectors in India had a range of outcomes from the post-liberalisation policies. In this paper, an attempt is made to compare the pre-liberalisation period employment situation with recent trends. This will help to understand the change in the employment scenario over the years due to the liberalisation policy in India.

II. Conceptual Framework:

The labour market in India comprises an organised and unorganised sector. The unorganised sector is comprised of enterprises typically owned by individuals, self-employed, or employers with fewer than ten workers. This sector is characterised by the absence of formal rules and regulations and no terms or security of employment (Kalyani, M. , 2016). According to the 2002 International Labour Organisation Report, unorganised sector workers are divided into wage workers and non-wage workers. The organised sector's enterprises are registered by the government and come under the Factories Act, Minimum Wages Act, Payment of Gratuity Act, and Shops and Establishments Act. There is security of employment with fixed hours of work in this sector. The organised sector is further divided into two sectors, viz., the public sector and the private sector.

III. Review of Literature:

The employment scenario of the Indian economy is characterised by the existence of two sectors, namely organised and unorganised sectors. An unorganised sector with unstable income and no security of employment provides huge employment opportunities to the growing workforce of India. However, the rate of wage is significantly higher in the organised sector compared to the unorganised sector (Gupta and Sanjay, 2012). As explored in the study of Goldar 2000, the industrial as well as employment scenario of India changed drastically after the inception of the liberalisation policy of 1991. Liberalisation policies open up the door to technological advancement and the inflow of Foreign Direct Investment (FDI). In spite of this, the organised sector experienced jobless growth during the period 1999–2000 to 2004–2005 (Mehrotra, Gandhi, and Sahoo, 2012). As observed from their study, Prakash and Balu (2013) identified that growth in output in the organised sector after liberalisation took place at the expense of job creation. The evidence is taken from the state of Tamil Nadu, India, where employment in the combined period of 1983–2006 has grown by a marginal 0.1% over the two sub-periods, pre-reform and post-reform.

The literature reviewed gives an idea of the growth and changes that took place in the organised and unorganised sectors after liberalization. However, a comparative analysis of the employment situation before and after liberalisation in these two sectors is a significant aspect to be studied from the perspective of the economy's growth. The present study is indeed an effort to address this vital issue.

IV. Objectives of the study

The broad objective of the study is to make a comparative study between the organised and unorganised sectors in terms of employment. The specific objectives are:

1. To examine employment trends in India before and after liberalisation.
2. To make a comparative study of the employment situation between the organised and unorganised sectors over the years.

V. Data Source and Methodology

The present study is entirely based on secondary data. Data are collected from the Various Issues of Economic Survey, Government of India, New Delhi, the National Sample Survey (NSS) 66th Round for 2004–2005 to 2005, NCEUS (2008) for 1999–2000, and the 2009–2010 Usual Principal and Subsidiary Status (UPSS).

To examine the employment situation in the organised and unorganised sectors of India, an attempt has been made to measure the employment disparity between these two sectors with the help of the Disparity Index. In this study, the disparity index developed by Kundu and Rao (1985) as described by Alam and Raju (2007) is used to measure the disparity between the two sectors.

The index is as follows:

$$DisparityIndex(DI) = \log\left(\frac{X_2}{X_1}\right) + \log\left[\frac{(200 - X_1)}{(200 - X_2)}\right]$$

Here, X_2 and X_1 are the values of the two groups between which disparity is calculated. The larger the value, the greater the disparity. A negative value indicates that the reference category has a lower value of disparity than that of the group with which comparison has been made. A Compound Annual Growth Rate is also calculated here with the help of the following formula-

$$\text{CARG} = \left[\left(\frac{\text{Ending Value}}{\text{Beginning Value}} \right)^{1/\text{Number of Years}} - 1 \right]$$

Where, CAGR=Compound Annual Growth Rate.

Table 1: Employment in organized and unorganized sectors of India (1961-2001)

| YEAR | Number of Persons Employed (in crores) | | DISPARITY INDEX |
|-----------------------------|---|--------------------|-----------------|
| | Organized Sector | Unorganized Sector | |
| 1961 | 1.46 | 17.41 | 1.11 |
| 1971 | 2.02 | 20.67 | 1.05 |
| 1981 | 2.29 | 21.4 | 1.01 |
| 1983 | 2.40 | 26.4 | 1.10 |
| 1987 | 2.57 | 26.8 | 1.08 |
| 1991 | 2.67 | 25.93 | 1.04 |
| Compound Annual Growth Rate | 0.11 | 0.07 | |

Sources: Various Issues of Economic Survey, Government of India, New Delhi

Table 1 highlights the employment in the organised and unorganised sectors of India. As observed before the liberalisation policy, i.e., in 1991, employment increased continuously for both the organised and unorganised sectors, with huge employment differences. However, employment in the organised sector slightly declined, from 26.8 crore in 1987 to 25.93 crore in 1991. The value of the disparity index as shown in the table indicates that the disparity between organised and unorganised sector employment declined up to 1981 and then again increased with a trivial drop in 1991. The value of the disparity index highlights the dominance of the unorganised sector in the field of employment before the liberalisation policy of 1991. Compound annual growth is also computed in the study. As the table shows, the compound annual growth rate for organised sector employment is 0.11, which is higher than the growth rate of the unorganised sector (0.07). Hence, analysis of the table indicates there is a huge difference in employment between the organised and unorganised sectors. This difference continues, as depicted by the value of the disparity index, implying the dominance of the unorganised sector in the labour market of the Indian economy.

Table 2: Employment in organized and unorganized sectors of India (1999-2020)

| Year | Number of Persons Employed (in crores) | | DISPARITY INDEX |
|-----------------------------|---|--------------------|-----------------|
| | Organized Sector | Unorganized Sector | |
| 1999-2000 | 5.41 | 34.26 | 0.87 |
| 2004-2005 | 6.26 | 39.49 | 0.88 |
| 2009-2010 | 7.288 | 38.734 | 0.80 |
| 2017-2018 | 9.05 | 38.07 | 0.70 |
| 2018-2019 | 9.46 | 39.32 | 0.69 |
| 2019-2020 | 9.55 | 43.99 | 0.75 |
| Compound Annual Growth Rate | 0.10 | 0.04 | |

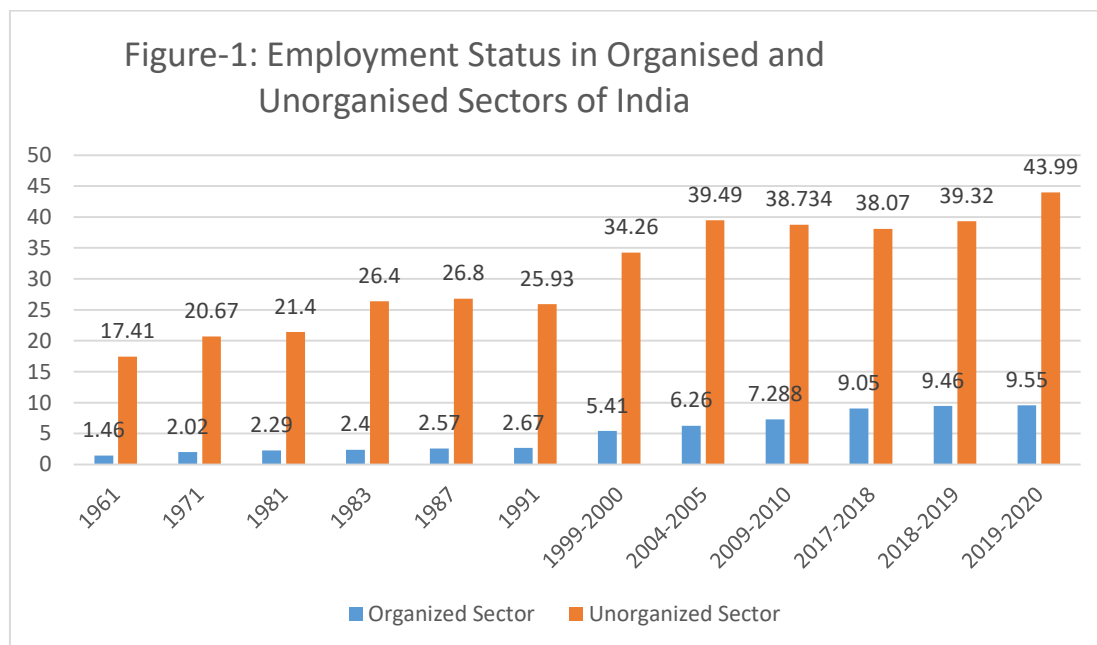
Sources: Various Issues of Economic Survey, Government of India, New Delhi and NSS 66th Round for 2004 to 2005, NCEUS (2008) for 1999-2000, for 2009-2010 Usual Principal and Subsidiary Status (UPSS) for 2009-2010.

After the liberalisation policy, significant changes seemed to occur in the industrial sector of India. To examine these variations in the employment patterns of the organised and unorganised sectors over the years, the employment trend after liberalisation is taken into consideration. As observed from the table-2, after almost 30 years of liberalisation policy, there is still a huge employment difference between the organised and unorganised sectors. After liberalisation, although the disparity between organised and unorganised sector employment has reduced, it cannot be considered significant.

The disparity value in 1991 was 1.04, which was reduced to 0.87 in 1999–2000. After a trivial rise in 2004–2005 to 0.88, the value again declined continuously and became 0.69 in 2018–2019. But it again rises to

0.75 in 2019–2020. The compound annual growth rate in employment in the organised sector seemed to be 0.10 over the years, which was 0.11 before liberalization. Considering the rate for the unorganised sector, it declined from 0.07 before liberalisation to 0.04 after the introduction of the policy.

The employment differences between the organised and unorganised sectors of India over the years are depicted in the following figure:



As the figure shows, from 1961 to the year 2020, there is a continuous and vast employment difference between the organised and unorganised sectors of India. However, after 1991, employment in the organised sector improved insignificantly compared to the unorganised sector.

VI. Conclusion and Suggestion:

As revealed in the study, the unorganised sector continued to hold a dominant position even after liberalization. The absence of official registration and unskilled employment opportunities makes it easier for workers to enter the unorganised sector, resulting in huge employment differences between these two sectors over the years. The disparity value shows a decline in disparity after liberalisation with almost insignificant improvement. This result can be supported by the fact that formal education and specialised skills are lacking in a significant section of the Indian workforce. However, the results of the study exhibit that the compound annual growth rate of organised sector employment is higher than that of unorganised sector employment both before and after the introduction of liberalisation policies. Better social security benefits, such as health insurance, pensions, and stable working conditions frequently offered by the organised sector, especially after liberalisation, might result in an improvement in the employment growth rate, but this growth is not sufficient enough to reduce the vast employment difference. Thus, it can be concluded that although economic liberalisation did result in changes in the Indian economy, such as increased foreign investment and economic growth, it is important to note that the predominance of the unorganised sector in the labour market is influenced by a complex interplay of historical, cultural, and economic factors.

A multifaceted strategy encompassing policy, economic, and social reforms is needed to reduce the discrepancy in employment between the organised and unorganised sectors of India. Significant investment is required for skill development and vocational training to improve the marketable skills of workers. To increase workforce employability, access to high-quality education needs to be expanded, especially in rural regions. Numerous positions in the unorganised sector are characterised by the absence of formal contracts, employment security, and legal protection. This may deter people from joining the organised sector in spite of many possible advantages. The simplification of registration procedures and the creation of portable social security accounts that people can use at various workplaces can encourage formalisation and a balance of employment in both sectors. Lastly, cooperation between government entities, business stakeholders, non-governmental organisations (NGOs), and international organisations needs to be encouraged to address the employment gap between these two sectors of the Indian labour market.

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