Gujarat's Growth Story

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If one were to use correct concepts and measurements, it will be seen that labour in Gujarat has actually significantly benefited from high economic growth and productivity gains. Annual Survey of Industries data show that the state has outperformed many others in the level of employment and wage compensation. A critical comment on "Labour and Employment under Globalisation: The Case of Gujarat" (EPW, 28 May 2011).

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In "Labour and Employment under Globalisation: The Case of Gujarat" Indira Hirway and Neha Shah (henceforth HS) (28 May 2011) conclude that (1) despite rapid growth in Gujarat, the structure of employment has remained the same; (2) low wages indicate that workers have not benefited from high industrial growth due to high capital intensity of industries; (3) productivity gains are not passed onto workers because growth in wages has been low; (4) the state has slipped lower in poverty reduction; (5) the present growth momentum in the state is politically and economically unsustainable as it is likely to lead to an aggregate demand deficiency problem; and (6) therefore, the Gujarat model is not a sustainable role model for other states to emulate.

Their arguments are not consistent and convincing because: (a) in some cases, the evidence they quote does not necessarily lead to their conclusion; (b) in some cases, they quote some data but ignore other data from the same source; and (c) in some cases, they ignore other readily available data sources, findings and evidence. Once we consider all the evidence, none of their conclusions hold. Let us consider their arguments one by one.

In the context of employment in Gujarat, HS argue that despite high growth rate of the state economy, the Lewisian structural transfer of workforce from primary to non-primary sectors remains a distant dream. There are conceptual and logical problems here. The concept of structural change is linked to a shift in workforce from low productivity to high productivity or traditional to modern activities and not with primary and non-primary activities.

A sizeable literature exists on this, which is ignored by HS. As a part of standard development theory, Todaro and Smith (2009) discuss the stages and transition of agriculture in developing countries from peasant subsistence to specialised commercial farming. This transition is essentially in the structure and character of the farm economy.

It should be noted that the growth rate of agriculture in Gujarat is nearly three times the average all-India growth rate. This high growth is achieved by significant diversification of cropping pattern from low value to high value commercial crops, and with rapid increases in allied activities such as dairying, animal husbandry, fishing and horticulture (Pathak and Shah 2010; Gandhi and Namboodiri 2010; Datta 2010; Sharma and Thaker 2010). There have been substantial structural shifts within the primary sector of the state, which accompanied the high growth trajectory of the state agriculture. The question of workers shifting from primary to non-primary sectors would arise only when the primary sector fails to offer high productivity employment, not when the primary sector is growing more or less at the same rate as the total state economy. In Gujarat the share of primary sector in state income (gross state domestic product) did not fall appreciably during the last decade. Hence it is logical to expect no structural shifts in the composition of workforce from primary to non-primary sector in the state, in spite of significant structural changes taking place in the economy.

Workers' Benefits

The second conclusion of the HS study is that workers are not benefited by high growth in Gujarat because increasing capital intensity in the industrial sector led to very low (8.5%) share of wages to workers in the net value added (NVA) with the remaining part being appropriated by the capitalists. Data from the Annual Survey of Industries (ASI) 2007-08 are quoted to support their contention. However, the correct use of data and other evidence do not support their contention. HS have taken the narrow definition of workers although the same source (ASI) provides a broader definition of workers (employees) and their compensation (total emoluments), which gives a correct description of all monetary and related benefits to all employees.

Table 1 shows the disaggregated categories of employment and emoluments for selected states.

It is evident from Table 1 that "workers" alone as a category do not adequately represent the true concept of employment as it does not include workers employed through contractors, and at the supervisory and managerial levels. These categories cannot be ignored when we are discussing labour and employment issues. Moreover, these categories form a significant proportion of employment in the factory sector. Correspondingly, total employee compensation is the correct measure for the cost to the company (CTC) and benefits to the employees. Table 1 shows that with the correct concept, the relative share of labour in NVA is more than 25%, and not less than 10% as claimed by HS. The remaining part is not only profit-appropriated by the capitalists, but also includes interest (a substantial part) and rent including royalty.

Table 1: Employment and Emoluments Paid in Factory Sector (2008-09)

Characteristics	Gujarat	Andhra Pradesh	Tamil Nadu	West Bengal	Maharashtra	Kerala
No of persons engaged	11,25,543	10,93,554	17,74,019	5,49,852	14,91,931	3,81,558
1 Workers	8,71,459	9,09,828	14,56,155	4,49,887	10,34,201	3,31,043
1.1 Directly employed	5,23,846	4,35,593	12,39,422	3,45,396	6,57,717	2,71,204
1.2 Employed through contractors	3,47,614	4,74,235	2,16,733	1,04,491	3,76,484	59,839
2 Employees other than workers	2,48,182	1,71,018	3,03,435	97,979	4,49,559	48,080
2.1 Supervisory and managerial	1,21,198	83,575	1,31,019	40,552	1,91,810	23,487
2.2 Other employees	1,26,984	87,443	1,72,416	57,427	2,57,749	24,593
Wages and salaries including employers' contribution (Rs lakh)	15,17,028	10,47,911	19,21,371	6,92,444	30,76,624	3,26,167
1 Wages and salaries including bonus	13,03,885	8,89,405	16,24,606	5,69,983	25,88,401	2,69,263
1.1 Wages and salaries	12,36,101	8,49,775	15,15,045	5,41,019	24,49,577	2,48,173
1.1.1 Workers	5,93,380	4,87,449	8,50,633	3,43,201	9,72,674	1,57,616
1.1.2 Supervisory and managerial	4,62,346	2,75,796	4,47,704	1,29,316	10,13,105	57,982
1.1.3 Other employees	1,80,375	86,530	2,16,708	68,502	4,63,798	32,575
1.2 Bonus to all staff	67,784	39,630	1,09,561	28,964	1,38,824	21,090
2 Employers' contribution	2,13,143	1,58,506	2,96,765	1,22,461	4,88,223	56,904
Net value added (NVA) (Rs lakh)	60,41,722	35,47,084	39,71,350	16,59,980	1,12,87,800	7,70,511
Wages to workers/workers (per day) (narrow definition) (Rs lakh)	189.14	148.82	162.27	211.91	261.25	132.28
Wages and salaries including employers' contribution/persons engaged (per day) (broader definition) (Rs lakh)	374.39	266.18	300.85	349.81	572.83	237.45

Source: ASI 2008-09, report on factory sector.

Table 1 also provides the wage rate per day in the factory sector. In terms of the narrow definition, the wage rate in Gujarat is only Rs 184 per day, which makes Gujarat rank 8th out of 14 major states. However, with a broader definition, the wage rate in Gujarat is Rs 374 that makes the state rank 4th out of 14 major states in the country. The difference between the two wage rates is indicative of the quality composition of workers and Gujarat ranks high on it contrary to what HS argue.

What is happening in Gujarat is fairly consistent with the well-established relationship between relative factor prices and capital intensity, and between capital intensity and relative share of labour in NVA. If the wage rate in Gujarat is relatively higher than other states, it implies a higher wage-rental ratio (because the rental rate is likely to be similar across states) leading to higher capital intensity in the state. With higher capital intensity, the relative share of labour will fall (or be lower than other states) if elasticity of substitution between labour and capital is greater than unity (Hicks 1933; Robertson 1957).

Thus the HS conclusion about workers not benefiting from higher industrial growth in Gujarat is not valid. Workers in Gujarat are getting higher wages, but since they are easily substitutable by capital, their relative share is lower. Moreover, the quality of industrial employment in Gujarat is higher and not lower than other states.

Growth of Wages

HS quote the data on nominal wages from the NSS 64th round to argue that the growth of wages in Gujarat has been low, implying that gains of productivity have not been passed onto workers. This finding is in contrast with other studies and the data from Rural Labour Enquiry (RLE) (2010), which show that real wages in the state have increased during the period 1999-2000 to 2004-05.

The real daily wage rate (which is a more appropriate measure in our context) has shown an improvement from Rs 39 in 1999-2000 to Rs 41 in 2004-05 for men in agricultural occupations (RLE 2010). Eswaran et al (2009) show that real daily wages increased on account of agricultural productivity growth for all major states including Gujarat during 1983-2004. Himanshu (2007) finds that Gujarat is one of the few states experiencing a positive growth of real wages for rural males (1.1%) simultaneously experiencing a decline in the rate of unemployment over the period 1995-2005. Thus, labour in Gujarat benefited on both wages and unemployment contrary to what HS argue.

Inflows of Migrants

Furthermore, in the context of wages and employment, the aspect of migrant labour in the state cannot be ignored. It is well known that Gujarat and Maharashtra are among the few net in-migrant states that receive large inflows of migrant labours from several states. Gujarat had a net in-migration rate of 16% that is higher than most other states (NSSO 2008a). Correspondingly, the unemployment rates in Gujarat as given by the NSS 64th round (Table 2) are among the lowest.

The unemployment rates in Gujarat have been substantially lower than the national average on all counts without exception and outperforms those in all major states like Kerala, Karnataka, Haryana, Maharashtra, Andhra Pradesh, Tamil Nadu, Punjab and West Bengal in all categories as measured by the usual principal status (NSSO 2008b, statement 22.1). This performance is despite

Table 2: Unemployment Rates in Gujarat and India as per NSS 64th Round

Unemployment Rates		Gujarat			All-India		
(per 1,000) (%)		UPS	CWS	CDS	UPS	CWS	CDS
Rural	Male	9	15	40	19	41	85
	Female	0	9	22	11	35	81
	Persons	6	3	35	16	39	84
Urban	Male	24	30	39	38	47	65
	Female	7	10	26	52	65	95
	Persons	22	27	38	41	50	74

UPS is Usual Principal Status, CWS is Current Weekly Status, CDS is Current Daily Status.

Source: NSSO (2008b).

the fact that Gujarat is a net in-migrant state with a large inflow of migrant labour from other states. It is, therefore, difficult to accept the conclusion of HS based only on the ranking of the state on nominal wages that labour in Gujarat is not benefited by the productivity gains.

Poverty Estimates

The conclusion of HS that the state has slipped lower in the ranks for poverty reduction is based exclusively on an exploratory IFPRI (2009) study using a Hunger Index that does not offer any comparability with the standard measures of poverty used in India. On the other hand, as of last comparable poverty estimates, the findings of Himanshu (2007) show that the poverty headcount ratio for Gujarat steadily declined from 22.2% in 1993-94 to 19.4% in 2004-05. Moreover, Gujarat also shows the lowest degree of consumption inequality among the better-off states in India (Himanshu 2007). These sharply contradictory evidence need to be reconciled before any serious conclusion is drawn.

The HS conclusion that present growth momentum in Gujarat would lead to an aggregate demand deficiency, making the state socially and politically unstable is highly debatable, if not totally unacceptable. This is because aggregate demand deficiency is a concept relevant for a closed economy with no external trade. Globalisation, on the other hand, implies extensive trade across borders. It is relevant to recognise that more than 20% of India's exports originate from Gujarat (*Economic Survey 2011*), and that Gujarat is well connected to the rest of the world with substantial international flows of both labour and capital. Problems of domestic demand deficiency are thus ruled out for Gujarat.

Moreover, even in the absence of globalisation, state economies are always open economies with substantial inter-state movements of goods, services and factors of production. The problem of domestic demand deficiency at a state level would, therefore, simply not arise. Further, Gujarat is attracting large investments due to better infrastructure and strong rural and urban consumer base. It is also a state with all its fiscal parameters within prudent limits.

Gujarat also shares several features with the Chinese economy including high savings and high growth rates. If a large country like China can sustain high growth for over three decades, why cannot a small open state economy like Gujarat sustain high growth rates for three-four decades? Considering all these aspects coupled with the evidence on wages, unemployment, poverty and income inequalities presented above, it is least likely that Gujarat becomes socially or politically unsustainable.

Given all the arguments and evidence discussed above, we cannot accept HS' final conclusion that Gujarat is not a sustainable role model for other states to emulate on such arguments.

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