

# Labour and Employment in Gujarat

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This response to the criticism by Dholakia and Sapre (6 August 2011) of our article “Labour and Employment under Globalisation: The Case of Gujarat” (28 May, 2011) argues that the ultimate goal of Gujarat’s growth should not be the growth of the state domestic product but people’s well-being. Gujarat does need to take a fresh look at the growth model that it is following.

Ravindra H Dholakia and Amey A Sapre (R-A), in their response (6 August 2011) to our paper “Labour and Employment under Globalisation: The Case of Gujarat” (28 May 2011) have argued that our major conclusions in the paper are not consistent and convincing.

R-A’s observations as well as logic are unacceptable to us not only because they have addressed only a part of the paper and ignored a wide range of evidence we have presented, but also because their argument is weak and does not support their overall observations.

## Structural Changes in Employment

R-A have argued that (1) the rate of growth of the state domestic product (SDP) in the Gujarat economy, including the agricultural sector, has been high during the past decade and (2) the high rate in the agricultural sector has been achieved by a shift to high value commercial crops and the high growth of allied sectors, such as dairying, animal husbandry, horticulture, etc. This has brought about a shift in the employment structure within the primary sector. We agree and in fact we have noted the high growth rates in all the three sectors (i.e., primary, secondary and tertiary sectors) clearly in our paper.

Where we do not agree is that this has brought about a transformation in the employment structure in the state. Though changes have taken place within primary sector employment, the overall structure of employment has not changed significantly in spite of a high rate of growth of the economy. For example, in 2008-09,

the primary sector contributed 14.8% to the state SDP, but housed 54.4% of the workforce. As against this, the non-primary sectors contributed 85.2% to SDP but gave employment only to 45.6% workforce. To put it differently, 1% of SDP in the primary sector supported 3.67% of the workforce, while 1% of SDP in the non-primary sectors supported only 0.53% of the workforce! This indicates the wide gap between incomes in the primary and non-primary sectors.

Table 1 shows that this gap has increased over the years. The percentage share of SDP from the primary sector to total SDP has *continuously declined* between 2001-02 and 2009-10. The moving averages, which remove annual fluctuations in the percentage shares, also suggest the same thing. However, according to the National Sample Survey Office (NSSO) rounds, the share of employment of the primary sector in the total employment has *increased* from 49.9% in 2004-05 to 54.4% in 2008-09.

When Arthur Lewis talked about structural transformation, he meant shifting of labour from agriculture (i.e., the primary sector) to non-primary sectors along with structural transformation in production. And this has not happened in Gujarat. The growth in the non-primary sector has failed to create adequate employment

**Table 1: Percentage Share of the Primary Sector in the SDP in Gujarat at Constant Prices (1999-2000 Prices, in Rs Crore)**

Year	SDP-Primary Sector	Total SDP	Percentage Share of Primary Sector in Total SDP	3 Yearly Moving Average-(SDP)		
				Years	Primary Sector	Percentage Share in Total SDP
2001-02	23,215	1,13,277	20.49			
2002-03	22,281	1,22,500	18.19			
2003-04	29,925	1,40,598	21.28	2001-03	25,140	19.99
2004-05	28,053	1,53,079	18.33	2002-04	26,753	19.27
2005-06	33,936	1,73,654	19.54	2003-05	30,638	19.72
2006-07	33,277	1,89,436	17.57	2004-06	31,755	18.48
2007-08	38,004	2,13,674	17.79	2005-07	35,072	18.30
2008-09	33,827	2,28,460	14.81	2006-08	35,036	16.72
2009-10	33,998	2,51,839	13.50	2007-09	35,276	15.36

Source: Annual Socio-economic Reviews of Directorate of Economics and Statistics, Government of Gujarat.

opportunities for labour to shift to non-primary sectors in the state.

## Share of Wages

The statement of R-A that the share of wages in the factory sector is 25% of the net value added (NVA) is indeed surprising (refer to Table 1, Dholakia and Sapre 2011).

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This is because they have calculated the share of wages where wages include “wages and salaries” of (1) workers, (2) supervisory and managerial staff, and (3) other employees – administrative clerical staff – as well as employers’ contributions to social security and bonus (including hefty bonus to managerial and administrative staff). R-A have not distinguished between the wages of workers and the salaries of “non-workers” or higher staff!

Table 2 reproduced from the Annual Survey of Industries (ASI) reports presents the data on the share of wages in the ASI sector. It clearly shows that (1) the share of wages has declined consistently in Gujarat between 2001-02 and 2007-08 and (2) Gujarat ranks 15th among the major 20 states in India in terms of the share of wages in the ASI sector in 2007-08. Table 2 also shows that the average daily wage rate of workers in the ASI sector was Rs 184.2 in that year, and that the state ranks eighth in the major states in the country in this respect.

Since the organised workers constitute only 8% of the total workforce in the state, the focus of our paper was on the unorganised informal workers. Unfortunately, this point is totally missed by R-A. While discussing wage rates, therefore, we have used wage rates of regular and casual workers. Table 8 of our paper on

daily wage rates of casual and regular workers in rural and urban areas in 20 major states in India shows that in 2007-08 Gujarat ranked 14th and 17th in the rural male average daily wage rate for casual and regular rural male workers, respectively, among the 20 major states – in spite of the high growth rate in agriculture. The corresponding ranks for urban male workers are eighth and 18th for casual and regular workers, respectively. The ranks for female workers are eighth and ninth (for casual and regular workers, respectively) for rural women and 14th and 13th for urban females. Clearly these ranks are extremely low for a fast growing state like Gujarat.

It is also important to note that Gujarat has slipped in the ranking over the years in almost all the wage rates – except for *marginal improvements* among rural female casual workers (from ninth to eighth rank), urban male casual workers (from eighth to seventh rank) and for urban regular workers (from 20th rank to 19th rank for male workers and from 14th to 13th rank for female workers). Clearly these achievements are most unimpressive.

We have also noted that the unemployment rates in Gujarat are lower than those in all-India. We have no quarrel with R-A on this. But what is surprising is that R-A have totally missed our point regarding the poor quality of employment in the

state. It is now widely accepted that the poor quality of employment is a major concern related to employment in the present environment. The entire literature on “decent work” has underlined the need for ensuring quality employment to workers. The National Commission for Enterprises in the Unorganised Sector (NCEUS) had also shown in its reports that a major concern in the area of employment was the rising share of the working poor. Using the data from the NCEUS reports, our paper has shown that the share of informal workers in Gujarat is much higher than many other states in India. We have also shown how these workers are served adequately by the labour administration including the different boards set up for them. Unfortunately, R-A have paid no attention to this important concern.

### Human Development

The slipping of the state in its ranks in the different aspects of human development has been shown not only by IFPRI (2009), but also by UNDP (2011), Planning Commission (2009), Shukla (2010) and the recent National Family Health Survey (NFHS) and National Sample Survey Office reports.

The report of the expert group to set up to review the methodology for estimation of poverty (Planning Commission 2009) under the chairmanship of Suresh Tendulkar has pointed out that the incidence of poverty in Gujarat has declined by 0.55 percentage points per annum between 1993-94 and 2004-05. The rank of Gujarat in poverty reduction is 11th among the major 20 states. The same committee has also shown that the incidence of poverty belonging to tribal population in the state has *increased* by 0.3 percentage points per year during the same period.

Also, according to a recent study by the UNDP, Gujarat ranks eighth among the major Indian states in the human development index (UNDP 2011). It ranks eighth in education and ninth in health. Again, according to the latest report of the NSSO, Gujarat ranks 13th in infant mortality rate (IMR) (the lowest IMR gets the first rank), 14th in child mortality rate, and ninth in children’s malnutrition. It ranks 11th in retention of children (6-16 years) in school. The recent NFHS has also pointed out that Gujarat ranks very low in women’s health

**Table 2: Share of Wages in Net Value Added in ASI Sector**

	1998-99	2001-02	2003-04	2005-06	2007-08	Rank 2007-08	Average Daily Wage Rate 2007-08	Rank 2007-08
1 Andhra Pradesh	22.98	22.50	17.83	17.63	13.44	8	136.2	16
2 Assam	15.20	28.52	8.17	10.25	13.05	9	104.9	19
3 Bihar	24.66	29.19	27.84	43.86	19.74	3	102.0	20
4 Chhattisgarh	16.97	20.28	9.02	7.67	5.97	19	204.2	5
5 Gujarat	11.83	14.96	9.66	7.67	8.52	15	184.2	8
6 Haryana	21.35	16.31	14.31	12.26	13.89	6	175.8	10
7 Himachal Pradesh	13.52	8.75	7.01	3.43	3.52	20	152.5	12
8 Jammu and Kashmir	NA	46.41	45.61	12.77	7.06	18	127.7	17
9 Jharkhand	NA	41.71	19.52	10.00	8.82	13	330.0	1
10 Karnataka	12.38	18.55	13.83	12.86	11.14	11	187.4	7
11 Kerala	40.74	29.33	23.46	25.73	22.47	1	119.9	18
12 Madhya Pradesh	17.59	13.04	14.66	12.90	8.69	14	177.0	9
13 Maharashtra	2.32	18.95	13.26	9.02	7.65	17	246.6	3
14 Orissa	252.27	31.21	19.35	12.38	9.62	12	248.5	2
15 Punjab	8.77	19.95	21.37	23.48	15.27	5	138.0	14
16 Rajasthan	23.48	15.96	16.03	13.36	11.27	10	137.7	15
17 Tamil Nadu	4.94	23.72	19.71	17.32	16.37	4	139.4	13
18 Uttar Pradesh	29.53	17.03	15.52	14.70	13.85	7	152.9	11
19 Uttarakhand	366.13	26.68	15.76	10.11	8.51	16	201.3	6
20 West Bengal	1.83	41.17	30.49	28.22	21.89	2	204.6	4
All India	18.24	20.10	15.02	12.08	10.7		172.9	

Source: Annual Reports of ASI.

and nutrition. In short, it is clear that a high growth rate is not translated into well-being effectively.

### Inequalities in Gujarat

It is difficult to understand why R-A have used Gini coefficients of the distribution of consumption expenditure as a measure of inequality in the state. It is well known in the literature that a Gini coefficient of consumption expenditure, particularly in developing countries, does not reveal adequately the inequalities in the access to incomes of different groups. The consumption expenditure of the rich class is usually underestimated and the consumption expenditure of the poor is overestimated. This is because (1) the rich tend to hide their consumption expenditure while reporting, (2) use black money for expenditure and do not report this expenditure, and (3) save a large part of their incomes. As against this, the poorer sections many times incur debts to consume. The need, therefore, is to measure inequalities of incomes to estimate inequalities. Rajesh Shukla has recently done this exercise (quoted in our paper), which shows that the Gini coefficient of income distribution in Gujarat is 0.46, which is not only higher than that in India, but also is higher than the accepted limits (up to 0.32-0.33) (Shukla 2010). Clearly, as Shukla has observed, Gujarat is one of the most unequal states in India.

### Capital Intensity of Growth

The argument made by R-A that the high capital intensity in Gujarat is due to the relative high wage rates and a high share of wages in NVA is absolutely wrong. There is neither any logic nor any empirical basis for this. The high capital intensity is primarily due to three reasons: First, the high contribution to national exports from Gujarat has encouraged export industries to use the globally competitive technologies, the frontier technologies, which are highly capital-intensive. Second, the flow of foreign direct investment from outside also brings with it highly capital-intensive technologies to the state economy. And finally, the high level of capital subsidies, incentives and concessions has reduced the relative price of capital, encouraging the use of capital-intensive

technologies in the state. It needs to be underlined that the price of capital in Gujarat is not the market price, but it is influenced by policies that invite investments at almost any cost. It is clear that R-A have read the rising capital intensity in the state incorrectly.

Our discussion on aggregate demand deficiency basically refers to the question: Growth for whom? We agree that in an open economy (open to the country as well as to the world), there will be a demand from outside the state and outside the country, and this may sustain growth of a state economy. But the critical question is about the purchasing power generated within the state that can not only sustain the growth of the state economy, but can also benefit the masses of workers within the state. Though the markets outside the state may sustain the state economy, it will not sustain, with the rising inequalities, the social and political life in the state. Though the deficiency of domestic demand will not hurt growth at the present, it will definitely adversely affect social and political sustainability (and therefore, economic sustainability) in the medium and long term.

As shown in our paper, the impact of the recent global crisis on Gujarat has raised questions regarding the validity of the strategy of growth that treats exports as an engine of growth. Our study of the crisis (quoted in our paper: Hirway 2009) also shows that the poor level of social protection of informal workers added to the woes of the workers during the crisis. R-A paper is silent on these issues.

It seems to us that the R-A paper considers growth of GDP (and gross domestic product) as the goal, while we consider

people's well-being as the goal. To us, economic growth is a tool to achieve developmental goals such as poverty reduction, human development, full employment, etc. Surprisingly, R-A have failed to look at labour beyond the formal organised labour. They have also failed to note how labour administration, including the Rural Labour Commissionerate, the Unorganised Sector Workers Board, etc, have achieved very limited success in providing social security, enforcing labour laws and in raising the overall well-being of the masses of informal workers in the state.

Gujarat definitely needs to take a fresh look at the growth model that it is following.

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