

Industrial Ownership and Contractualisation in India's Organised Manufacturing Sector

Bir Singh

Associate Professor

Department of Economics

Delhi College of Arts & Commerce

University of Delhi

birsingh@dcac.du.ac.in

Abstract

Contractualisation in the organised manufacturing sector is the most critical phenomenon in India's labour market in the post-economic reforms era. Even as it grew fast in the post-reforms period, its genesis lies in the political economic contours of industrial policies since Independence. It is deeply integrated with size and ownership factors that define the industrial structure. While the policy shift of the early 1990s stimulated India's economic growth and replaced regular jobs of organised manufacturing sector by contract labour, size distribution of firms and structure of industrial sector have remained static by and large. The policies of economic reforms have consolidated the existing ownership pattern and enlarged the share of large capital-intensive firms in total firms. This paper attempts to show that concentration of private ownership and large firms in the industrial sector underlie faster contractualisation after the economic reforms.

Keywords: contractualisation, industrial structure, ownership, economic reforms, manufacturing

1. Introduction

While the policy shift of the early 1990s stimulated India's economic growth, regular jobs in the organised manufacturing sector were replaced by contract labour fast. The ASI data shows a drastic rise in the proportion of large firms in the industrial structure across select states over 1999-00/2018-19. As these firms have grown capital intensive, the production process has undermined regular employment. Contract labour has increased rapidly in these firms as the large firms tend to push contractualisation of jobs (Singh, 2022). The ownership pattern of

industries has a direct bearing on the size of firms. There are many other factors that cause contractualisation of manufacturing jobs.

The declining labour content in global manufacturing production, low growth of value added in labour intensive industries, low industrial productivity, and import competition are some of the prominent hurdles that withhold growth of regular jobs. The hasty policy interventions¹ in recent times, have disrupted harmonious functioning of the economy and has destroyed millions of small and micro industries. This, in turn, has adversely impacted the labour market. Although some researchers and intellectuals justify these policy interventions, the hardships of informal workers have exposed their claims.

In the current scenario, expansion of the formal sector is most essential for growth of regular jobs in the manufacturing sector. Reflecting upon the political choices that Indian policy makers made, industrial structure throws certain hard facts which have not received the due attention. Among them, the questions of industrial ownership and transition in firm size distribution are quite prominent. We argue that, among many factors, industrial structure and skewed distribution of ownership firms have also contributed to contractualisation of manufacturing sector jobs.

In this paper, we intend to examine contractualisation in the organised manufacturing sector from the perspective of the political economy of industrial development. The following sections discuss the phenomenon of contractualisation and its various dimensions, the industrial structure and pattern of ownership of firms, the political economy of industrial development and the way forward.

2. Research Methodology and Data

We have framed two regression models for five different points of time (1999-00, 2004-05, 2009-10, 2013-14, and 2018-19). The choice of these points of time was guided by the pattern of employment growth in the manufacturing sector. The OLS regression equation was framed to examine causality behind contractualisation by controlling for size and ownership of firms. The OLS has been used to see how firms adjusted labour demand in response to policy changes of the early 1990s raising import competition.

Regression Equation

$$CONTRACT_i = \beta_0 + \beta_1 PROFIT_i + \beta_2 LACOST_i + \beta_3 FINCAP_i + \beta_4 INVEST_i + \beta_5 IMPCOM_i + \varepsilon_i \quad (1)$$

$$\& \beta_0 > 0, \beta_1 > 0, \beta_2 < 0, \beta_3 > 0, \beta_4 > 0, \beta_5 > 0,$$

where, CONTRACT_i (contractualisation in i^{th} firm), PROFIT_i (profit share of i^{th} firm), LACOST_i (wage gap in i^{th} firm), FINCAP_i (interest cost of i^{th} firm), INVEST_i (physical capital used in i^{th} firm), IMPCOM_i (imported inputs used in i^{th} firm).

The Ramsey RESET² and Linktest³ were carried out to check for model specification and to rule out errors of omitted variables from the model. There was no multicollinearity as the value of VIF⁴. In order to deal with it, heteroskedasticity-robust estimation was done

We have used the ASI data and raw data of ASI for twenty years (1998-99 to 2018-19). It was arranged in a usable format for processing with STATA, statistical software, for each year. Many variables were constructed to carry out the analysis. To examine industrial structure, we have used the Economic Census data of the 6th round. In addition, we have used world development indicators data published by the World Bank.

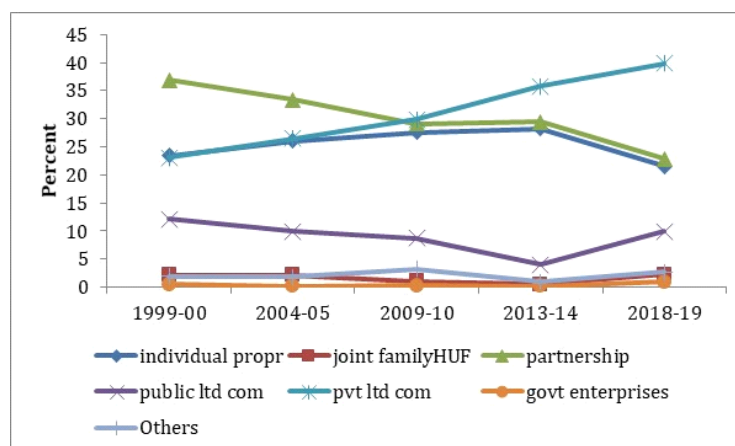


Figure 1: Distribution of firms by type of organisation, 1999-2019

Source: Author's estimates based on ASI data

3. Industrial Structure and Ownership Pattern

India's industrial structure and ownership pattern show a kind of elitism or hierarchy very much like social structure. The share of large firms has increased in the post reforms period. The share of private proprietorship is largest in terms of ownership as revealed by table (1). Similarly, figure (2) reveals that social groups of scheduled caste and scheduled tribes have very low share in ownership of establishments. The policies of economic reforms haven't shown any thrust to correct this. In the phase-I (1947-1985) India followed the path of planned economic development and laid out a robust foundation of modern industrial development.

The hard lessons that were learnt from the colonisation era made planners opt for a closed economy model⁵. There was some policy focus on public health and education as well. However, there was not a long-term policy on human resources integrated with industrial development. In other words; process of economic development was carried through modern industrialisation as followed in the Western Europe. It was fuelled by heavy physical capital and it was not labour absorbing. Therefore, even as industrial development and economic growth materialised, the core socio-economic challenges continued to become fierce. The economic policies in this phase were on physical investment for industrialisation without much consideration for human resource development for the industries largely.

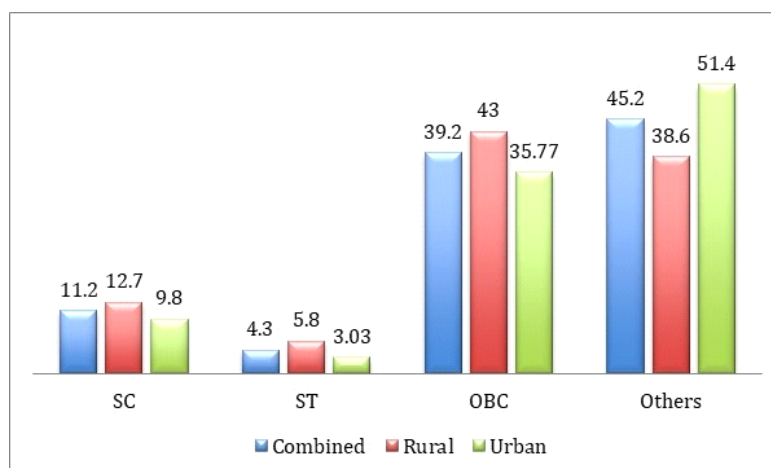


Figure 2: Ownership of Non-Agricultural Proprietary Establishments by Social Group

Source: 6th Economic Census, 2013-14

In the second phase-II (1985-2014), India's policy intervention tilted towards the market economy given fiscal constraints (Joshi et al., 1996). There were policy signals for relaxing the control system and opening the economy for private players. The public sector undertakings were privatised under the haze of global propaganda against government regulations and control (Harvey, 2016). The onset of new economic policy in India further deflected the policy attention from human development and human capital formation.

Table 1: Non-agricultural establishments by type of ownership and type of establishments

| | Rural | | Urban | | Combined | |
|----------------------------|------------------------|--------------|------------------------|--------------|------------------------|--------------|
| | With at least I worker | Total | With at least I worker | Total | With at least I worker | Total |
| Government/PSU | 1573220 | 1573220 | 483281 | 483281 | 2056501 | 2056501 |
| | 25.79 | 6.93 | 5.29 | 2.13 | 13.5 | 4.53 |
| Private: | | | | | | |
| i) Propriety | 3526527 | 19000169 | 7609557 | 20436846 | 11136084 | 39437015 |
| | 57.8 | 83.66 | 83.36 | 90.22 | 73.12 | 86.94 |
| ii) Partnership | 73550 | 130286 | 209625 | 282537 | 283175 | 412823 |
| | 1.21 | 0.57 | 2.3 | 1.25 | 1.86 | 0.91 |
| iii) Company | 53159 | 65326 | 113877 | 123068 | 167036 | 188394 |
| | 0.87 | 0.29 | 1.25 | 0.54 | 1.1 | 0.42 |
| iv) Self Help Group | 29951 | 176594 | 17967 | 53291 | 47918 | 229885 |
| | 0.49 | 0.78 | 0.2 | 0.24 | 0.31 | 0.51 |
| v) Cooperative | 49968 | 60812 | 31890 | 37556 | 81858 | 98368 |
| | 0.82 | 0.27 | 0.35 | 0.17 | 0.54 | 0.22 |
| vi) Non-Profit Institution | 334652 | 713169 | 170948 | 286051 | 505600 | 999220 |
| | 5.49 | 3.14 | 1.87 | 1.26 | 3.32 | 2.2 |
| vii) Others | 459833 | 990969 | 491059 | 950611 | 950892 | 1941580 |
| | 7.54 | 4.36 | 5.38 | 4.2 | 6.24 | 4.28 |
| Total | 6100860 | 22710545 | 9128204 | 22653241 | 15229064 | 45363786 |
| | 100 | 100 | 100 | 100 | 100 | 100 |

Note: Bold italic figure denotes percentage figures.

Source: 6th Economic Census, 2013-14.

While all developed countries and the East Asian countries developed their human resources, Indian state easily escaped this responsibility due to caste-class bias of India's political economy (Thorat and Newman, 2007). Despite the catchy slogan of structural reforms as the economic reforms were labelled, structure of political economy remained sacrosanct. The deeper questions of economy such as unemployment, inequality, and inclusion of all people through policy interventions were not touched. The economic reforms facilitated merely transfer of ownership of industrial capital from the government to the private sector only.

The third phase (after 2014) is characterised by autocratic policy interventions⁶ to decimate government ownership of all undertakings, economic infrastructure, and disrupt all democratic processes of human development. The agitation by the farmers and labour class highlights grave fault lines of class struggle that have resulted from the agrarian policies⁷. Apart from this, there are many other policy interventions that have not only smashed the steady economic growth before the COVID outbreak, but also added to the social unrest and caste class divisions in the society.

As discussed in section (4), casualisation and contractualisation of jobs in India's manufacturing sector has been policy induced. The product reservation policy for small scale industries⁸, with all fine intentions of policy makers, constrained firm size, productive efficiency, and expansion of the organised manufacturing sector (See subsection. These loopholes of industrial policies glowed brightly as soon as economic reforms were introduced in the early 1990s.

The size of the organised manufacturing sector must be increased through policy interventions. Figure (1) reveals that the share of private limited firms has grown consistently in the post economic reforms period. The recent policy initiatives of the government⁹ may be good steps in this direction. However, they look inadequate as compared with countries of the East Asian region where the pattern of industrialisation and demographic transition were going together with the level of economic development. This calls for putting up pre-conditions¹⁰ for such development. In order to do that expansion of the formal manufacturing sector, the policy makers need to foster entrepreneurs from the base of the pyramid of Indian social order. We argue that such a policy move will correct the imbalance of political economy of industrial development and will ensure social inclusion in the economy.

4. Industrial Performance: Issues and challenges

India too adopted a planned development model although there was a vacuum on national policy for the manufacturing sector until 2011. The National manufacturing policy, 2011 was framed to address all such worries of the manufacturing sector. However, this was too late and short-lived. Opening the economy to foreign players before putting up such a policy in place was itself proof that policy makers were not prepared for external market competition. It is quite pertinent that social reforms¹¹ must be initiated before any kinds of economic reforms. Thus, India's manufacturing sector is way behind the world's manufacturing in respect of technology, production scale, and export share in global exports.

Consequently, contribution of India's organised manufacturing sector to the Lewisian type of transformation India has been lower in cross-country perspective. However, the unorganised sector has shown some signs of such a transformation since 2005. This is the reason for the withdrawal of 63 million¹² labour from the agriculture sector to non-farm sector. The declining job quality in the manufacturing sector mirrors this structural failure. In other words, it means that the fundamental strength of the economy is still not up to the mark. This is reflected in low technical efficiency of the manufacturing sector.

The industrial development strayed away from inclusive growth as policies could not frame a holistic policy framework for industrial development in terms of India's political economy demands. Since independence, India's industrial development has been governed by policies of import substitution, reservation for small scale industries, and control system¹³. There was a sheer shortage of vision for addressing issues of economic inequality and deprivation of social groups from ownership of industrial firms.

4.1. Industrial development since independence

India's industrialisation was laid out through the provisions of the Industrial Policy Resolution, 1956 which had the mandate to enhance economic growth and accomplish the objectives of the society with least regional imbalance. As the capital base was very narrow after independence, the state took all responsibility and ownership of industrial development. Most of the industries were owned by the government-central and state governments. The industries were divided into three

categories in terms of their ownership: central government owned, state government owned, and privately owned. The priority was given to the states having a low industrial base.

As industrial development expanded, there was a growing concentration of private industries in a few houses as industrial licensing enabled them to own a disproportionate share of industries. Taking cognizance of the same, Monopolies Inquiry Commission, 1964 and Industrial Licensing Policy Inquiry Committee of 1967 recommended to restrict the entry of private industries into core and heavy investment sectors only. Later, the monopolies and restrictive trade policies (MRTP) Act, 1969 was enacted to dispel the industrial concentration in a few hands only. The new industrial licensing policy, 1970 created four sectors of industries: Core, Heavy, Middle, and De-licensed sectors. In addition, the large business houses and foreign companies were entrusted with core, heavy investment, and exports industries only.

The thrust of India's policies over 1949-1990 was on five broad issues: raising industrial productivity and level of production, promoting small scale industries in order to realise structural transformation, regional balance in industrial development, discouraging formation of monopolies of large industries, and check on foreign investment in order to protect indigenous industries. However, the stylized pattern of structural transformation did not take place in India

In the subsequent period, the government of India has announced industrial policy statements and industrial policy measures only¹⁴. Industrial policy statement, 1973 promoted small and medium entrepreneurs over the large houses and foreign companies for capacity formation to produce mass consumption goods. Industrial Policy Statement, 1977 facilitated industrial decentralisation by promoting small scale, tiny and cottage industries in order to enhance backward and forward linkages in industrial and agricultural sectors. It also expanded the ambit of industrial reservation for the small scale sector. The Industrial Policy Statement, 1980 emphasised competition in the domestic market, technological innovations and industrial modernisation. Moreover, managerial efficiency of public sector undertakings (PSUs) was developed by improving operations, finance, marketing and information systems.

India's industrialisation has undergone two major turning points so far. The closed economy model of import-substituting industrialisation and heavy industrialisation was adopted for boosting the capital goods sector during the period (1950-80) and subjected to import controls as well as industrial licensing. Later on, industrial space for private sector¹⁵ in industrialisation was increased during the 1980s in the stewardship of the Prime Minister, Rajiv Gandhi. The economic reforms introduced stabilisation and structural reforms¹⁶. Ahluwalia (2018) argues that these reforms were the outcome of deliberate planning of the government rather than any kind of imposition from the International Monetary Fund (IMF).

Although researchers including Amirapu and Subramanian (2015) term it premature deindustrialisation¹⁷ in India, we do not agree with their viewpoint. Generally, deindustrialisation¹⁸ sets in an economy only after the share of its manufacturing sector to GDP has reached to 30 percent. Contrasting this, in India's case, the manufacturing sector has remained stagnant since the early 1980s. The industrial share in total employment has started declining after touching the 25 percent mark as GDP per capita crossed a particular level (\$1500) which is way below compared to the East Asian countries level. Even then, it cannot be outrightly termed so because the potential of the industrial sector has remained unrealised due to many factors on both demand and supply sides.

The demand side factors have constrained growth of India's industrial sector. The lack of policy focus on production of consumer non-durable goods, adoption product reservation policy for small scale industries, and multiple labour laws for the organised manufacturing strangled industrial sector. There was no incentive left for increasing the scale of production and hence size of industries remained small. Industrial policy interventions caused irreparable distortions in growth and expansion of the industrial sector, compressed economic growth, and suppressed aggregate demand in the economy.

All this resulted in low economic growth and dwarfed the middle class. At present, about 350 million people constitute India's middle class which increased by fifty times during the period (1950-2018) and the maximum growth has taken place after the economic reforms (Singh, 2019). So, we may say that state-led capitalism and bureaucratic hurdles constrained the size and scale of industrial production and

expansion of the organised manufacturing sector. The legacy of bureaucratic disruptions to industrial development has not died down even after three decades (1990-2019) of the economic reforms.

The policy failures of the pre-reform era have not been corrected as the orientation and thrust of policies have not created much dynamism in industrial development. The focus of economic reforms has concentrated largely on economic growth through tariff reduction, industrial deregulation, privatisation etc. The factors of utmost importance relate to enhancing total factor productivity growth in the industrial sector, tapping the potential of demographic dividend, and promoting share of marginalised social groups in industrial ownership. We argue that designing a holistic industrial policy will repair all these dimensions of industrialisation.

4.2. Political economy of Industrialisation

An industrial policy is subject to the political choices and institutional framework to implement them. That is why, even though the industrial policy was a great success in South Korea and Hong Kong, it failed miserably in countries of the African continent in the 1960s (Haggard, 1990). In the early stages of development, it promotes resource-based manufacturing, diversified industrialisation at later stages, and high-technology industries at the advanced stage of development. In India, however, this kind of transition in policy focus was not followed although there were four industrial policy/statements resolutions¹⁹ adopted during the period 1948-1990. This resulted in stagnation of the manufacturing sector for many decades now.

The industrial policy framework attempted to address issues such as enhancing industrial growth by developing import substituting industries, discouraging concentration of privatisation, and reducing regional disparities. There was emphasis on developing heavy industries as well as small cottage industries²⁰. To streamline balanced regional growth of industries, the government had set up the District Industries Centres (DICs) which were set up throughout the country to facilitate small entrepreneurs in villages in terms of raw material, bank credit, machinery, and marketing of their produce.

The industrial policies promoted over-concentration of small firms thanks to the policy of industrial reservation for small firms. While the policy

was framed to protect and promote small entrepreneurs, it could not target the political economy or ownership structure of industries. For instance, there was little support or encouragement to potential entrepreneurs from the marginalised section of India's social pyramid. Figure (2) reveals that there is a huge disparity in ownership of establishments. The policies were not desperate to break the dominance of business houses belonging to the social elites. There was no affirmative action policy on raising entrepreneurs from these communities. That is why, achieving the policy goal of economic inclusion has seemed quite formidable in this globalised era given the huge size of informality.

Contrarily, countries of East Asia and the Pacific region steered their industrial development in conformity with the level of development and comparative advantages. Initially, labour intensive industries were developed which required low-skilled labour. The industrial policies that were adopted were flexible, and carried features of entrepreneurial maturity, skill-sets, competitiveness, and scale of production. They had promoted partnerships between the public sector and private sector. And also there were collaborations between industries and academic and research institutions. So, industrial policy played a key role in steering industrial development in all developed and developing countries.

The synergy between physical, economic, and human resources was not created unlike the countries of East Asia. The factors of demographic transition were not given much importance in industrial policy design. The policy focus on entrepreneurship development among marginalised sections is a very recent feature of policy intervention in the country. That is how the industrial sector suffered from supply and demand side hurdles. The political economy ignored the larger participation of social groups in ownership of industries. The Industrial Policy Statement, 1991 has not changed much in this respect.

The objective of this industrial policy statement was to enhance and sustain productivity growth, generate industrial employment and utilise the potential of huge human resources to build up international competitiveness so that India becomes a strong player in the world economy. It also emphasised bringing backward areas of the country in the mainstream of industrial development by creating a mix of incentives, institutions and infrastructural investments. If such policy thrust was for economic choices, it is fine.

But why were political choices confined to a narrow canvas of industrial policy? Why was there no passionate attempt to expand the ownership structure of enterprises in terms of social groups? Why do marginalised and backward communities still own the Own Account Enterprises (OWEs) only? Why were industrial policies ignored creating skilled manpower for modern industries? Why was there no policy thrust on delegating responsibilities to all large business houses for development of human resources? We argue that these issues have not been addressed even after the policy shift of the early 1990s.

5. Size and Ownership of firms and contractualisation in organised manufacturing

The policy paradigm of the early 1990s has increased the proportion of large firms across states. The growing size of firms has a positive impact on total factor productivity though it tends to promote contractual jobs. As mentioned earlier, the trends have shown that the phenomenon of contractualisation in India had set in from 1997-98 onwards. However, the performance of the organised manufacturing sector in terms of industrial productivity and employment growth has not improved much.

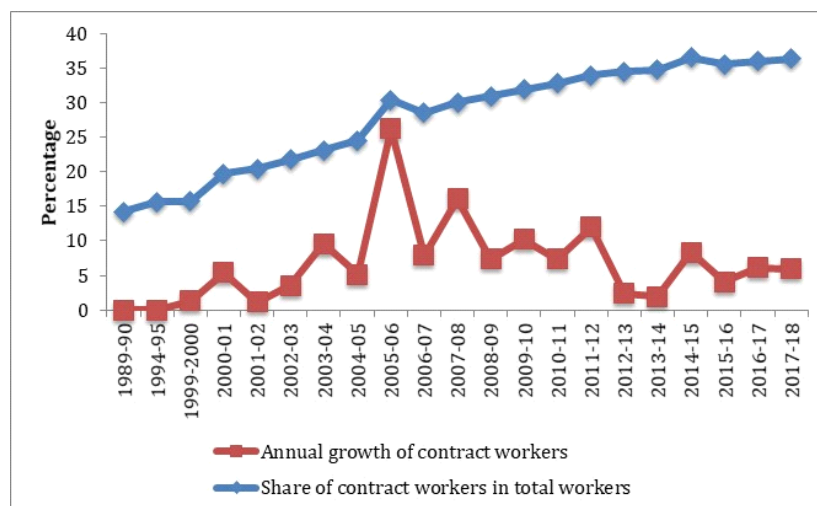


Figure 3: Contract workers in the formal manufacturing sector, 1999-2018

Contractualisation has got entrenched in India's manufacturing sector (Figure 3). In fact, informality of jobs has become a global phenomenon with the surge of the market economy. Informality grew even faster with India's transition to the market economy in the early 1990s²¹. While it boosted economic growth relative to the pre-reform period

(1950-90), the formal manufacturing sector could not absorb the growing labour force due to the small formal manufacturing sector. The economic reforms of the early 1990s contributed to economic growth thanks to lifting various industrial and trade restrictions. However, there are contrasting claims regarding the impact of reforms on productivity growth.

The growing extent of contractualisation²², has its root in poor performance of the manufacturing sector. It is also a reflection of factors like rigid labour laws, small size of the organised sector and policy of product reservation since that led to duality²³ of the manufacturing sector and thus constraining growth of regular employment.

Table 2a: Empirical results for contractualisation in wholly private sector

| CONTRACT | 1999-00 | 2004-05 | 2009-10 | 2013-14 | 2018-19 |
|----------|---------------|-------------|--------------|---------------|-----------|
| IMPCOM | 0.0439*** | -298.1*** | -3.26e-08*** | -215.0*** | 0.0804*** |
| | -0.01 | -50.51 | 0.00 | -50.18 | -0.0112 |
| FINCAP | 0.0186* | -0.00321*** | 0.00545*** | -0.00392* | -0.0111 |
| | -0.01 | 0.00 | 0.00 | 0.00 | -0.00629 |
| PROFIT | -0.0000839*** | 0.000242** | 0.00000124* | 0.000342*** | 3.65E-05 |
| | 0.00 | 0.00 | 0.00 | 0.00 | -0.000245 |
| LACOST | 0.00000864*** | 0.808*** | -0.000131*** | -0.00984*** | 0.317*** |
| | 0.00 | 0.00 | 0.00 | 0.00 | -0.00525 |
| INVEST | -538.9*** | -70.79*** | 0.000689* | 0.00000455*** | -978.4*** |
| | -159.90 | -17.44 | 0.00 | 0.00 | -232.6 |
| _cons | 0.149*** | 0.211*** | 0.00276*** | 1.008*** | 0.373*** |
| | 0.00 | 0.00 | 0.00 | 0.00 | -0.00354 |
| N | 4542.00 | 15785.00 | 20398.00 | 1577.00 | 17160 |
| R2 | 0.75 | 0.74 | 0.21 | 0.20 | 0.179 |

Source: Author's estimates based on ASI data

* p <0.05, ** p <0.01, *** p <0.001

The growing proportion of casual and contractual jobs poses a policy challenge to enhance productivity growth and achieve inclusive growth²⁴ which entails a massive employment growth in the organised manufacturing sector. However, the fact remains that the contribution of the manufacturing sector to output and total employment has remained

very little despite three decades (1991-2019) of reforms policies. In the cross-country perspective also, performance of India's manufacturing sector is way below the rest of the countries. Whatever employment growth that has happened in the manufacturing sector is mostly related to the unorganised manufacturing sector over this three decade period (1991-2021). These jobs have largely been informal.

All informal workers are a vulnerable segment of the workforce as they are not covered under the Labour Laws. There was a marginal decline in informal employment in the year 2017-18 mainly to coverage of contractual jobs and fixed-term employment under the Employees Provident Fund Organisation (EPFO) and Employees State Insurance Corporation (ESIC). However, this trend got reversed again as the proportion of informal workers rose to roughly 95 percent as per PLFS 2019-20 data.

Table 2b: Regression results of contractualisation for large firms

| CONTRACT | 1999-00 | 2004-05 | 2009-10 | 2013-14 | 2018-19 |
|----------|---------------|-----------|---------------|-------------|-------------|
| IMPCOM | 0.0415*** | -393.0*** | -8.70e-09*** | -278.9*** | 0.0824*** |
| | -0.0121 | -57.82 | -7.11E-10 | -55.61 | -0.00806 |
| FINCAP | -0.0000254 | -0.00279* | 0.00150*** | -0.00475* | 0.00259 |
| | -0.00358 | -0.00122 | -0.0003 | -0.00215 | -0.0164 |
| PROFIT | -0.0000859*** | 0.000297* | -0.000000520* | 0.000474*** | 0.000345 |
| | -0.00000225 | -0.000118 | -0.000000257 | -0.000109 | -0.000279 |
| LACOST | 0.00000836*** | 0.793*** | -0.0000557*** | -0.00609*** | 0.536*** |
| | -7.59E-08 | -0.0045 | -0.00000518 | -0.000539 | -0.0354 |
| INVEST | 0.0000227*** | -382.1*** | 0.000140** | 0.0000879* | -0.00271*** |
| | -0.00000378 | -61.33 | -0.0000544 | -0.0000446 | -0.0000446 |
| _cons | 0.174*** | 0.236*** | 0.00176*** | 1.003*** | 0.327*** |
| | -0.00423 | -0.00284 | -0.0000226 | -0.000659 | -0.0069 |
| N | 77 | 12071 | 17283 | 1292 | 31792 |
| R2 | 0.901 | 0.653 | 0.01 | 0.266 | 0.271 |

Source: Author's estimates, Note: Standard errors in parentheses

* p < 0.05, ** p < 0.01, *** p < 0.001

Contractualisation across firms was pulled up by factors like rising import penetration, profit share, labour cost of regular workers, and declining cost of finance capital. However, the impact of wage gap on

contractualisation was highest as the value of R^2 increased fast as we included wage gap in the regression.

As regards impact of ownership firm on contractualisation, we find that all explanatory variables were statistically significant for firms in wholly private sector. In other words, factors such labour cost, profit share, cost of finance capital, and investment climate all mattered. However, for contractualisation across states, we find that factors like investment climate, profit share, and labour cost were crucial for determining quality of employment in the manufacturing industry.

In the case of large firms, contractualisation was driven by factors like import competition, wage gap, and investment climate. As large firms employed 300 and more employees and capital labour ratio was high. The share of such firms in total firms in the organised sector is below 12 percent. With reduction in tariff walls, the pressure of import competition forced them to introduce more physical capital and hire contract workers to meet competition.

6. The way forward

Contractualisation in India's manufacturing sector underlines the severity of unemployment challenge that the economy faces though it is not a phenomenon of post-reform period only. While it was steady and got built up over decades in the pre-reform period (1950- 1990), it intensified after implementation of the New Economic Policy of 1991 mainly from 1999-00 onwards. Though it occurred in industry groups of all types and sizes, it was particularly high in capital and technology intensive industries, large industries, and in major industrial states.

All of this together reflected some kind of structural shift in India's labour market in line with labour informalisation worldwide. Growing contractualisation amid declining labour cost and low incidence of strikes in the industrial sector is an antithesis of arguments holding labour market rigidity responsible for stagnation of the manufacturing sector.

The organised manufacturing sector holds the key to realise labour absorbing structural transformation and address unemployment challenges that India faces. Economic theories underscore that manufacturing growth is essential for enhancing employment growth. However, even if contract

workers enable cost competitiveness of the sector. Contractualisation will hamper productivity growth and economic growth in the long run. In this respect, India's manufacturing sector is already way behind the industrialised and newly industrialised countries. The developed countries, the front-runners of the global production system, have already progressed towards the Fourth Industrial Revolution.

In this research, we have confined our focus to the organised manufacturing sector during 1990-91/2019-20. We attempted to examine the impact of policy changes of the early 1990s on employment quality from the perspective of industrial structure and ownership of firms. We found that factors like ownership and size of firms have been quite instrumental in pushing for contractualisation in the manufacturing sector. The way forward for a strong and diversified organised manufacturing sector is that policy frameworks promote small firms in industrial structure and share of marginalised social groups must be enhanced in the ownership pattern of firms.

Endnotes

1. Demonetisation and sudden introduction of goods and services tax
2. Regression specification error test (RESET) which is used to detect misspecification of functional form of a regression model
3. For empirical analysis, this test is used to rule out misspecification of explanatory variables.
4. It shows that how much coefficients of estimated variables are inflated vis-a-vis predicted variables, was very low (Wooldridge, 2015)
5. The economy was heavily controlled and regulated through licensing system and the public sector owned and operated most of the undertakings
6. With the winding up of the planning commission of India, policy measures such as demonetisation, privatisation of Indian railways, highways, airports, public sector banks, and uncalibrated introduction of the goods and services tax. The improper imposition of lock-down has halted all economic development
7. The contentious three farm bills that were passed in the parliament in the middle of year 2020 for corporatisation of India's agriculture
8. The manufacturing of more than 800 products were reserved for small scale industries under the Industries (Development and Regulation) Act, 1951 and successive industrial resolutions.

9. The introduction of Goods and Services Tax(GST) and policies of Digital India have led to some amount of formalisation in industrial sector (Economic Survey,2017-18)
10. The pre-conditions essentially mean that productive capacity of an economy must increase to benefit from the network of global production system
11. Ensuring social democracy, human dignity, and respect of labour is essential for non-antagonism in distribution of economic resources. This requires that caste hierarchy is dismantled to correct the political economy of production relations.
12. About 37 million labour during 2004-05 and 26 million during 2011-12/2017-18 withdrew from agriculture.
13. The industrial licensing system that existed before the economic reforms in early 1990s
14. Industrial policy statement,1973, 1977, 1991; Industrial policy measures, 1980s.
15. Industrial licensing for 30 industries removed, the MRTP limit increased, liberalisation of capital goods imports, widening of OGL window for capital goods and intermediaries, establishment of the Securities and Exchange Board of India
16. The industrial licensing removed for all industries barring 18 industries, abolished the MRTP Act, reducing industrial reservation of the public sector from 17 to 8 industries.
17. The premature deindustrialization takes place at a very low level of per capita GDP where the share of the manufacturing sector in total GDP and employment is low.
18. It refers to a stage of economic development in an economy where share of the manufacturing sector to GDP and employment declines after successful Lewisian structural transformation has happened
19. Industrial Policy Resolution,1956; Industrial Policy Statement,1973; Industrial Policy Statement,1977; Industrial Policy Statement, 1980
20. To this end, industrial policy, 1948 had thrust upon cottage and small industries. The Khadi and Village Industries Commission(KVIC) was set up in 1955.The Industrial policy, 1956 prioritise heavy industries
21. It is reflected by the new economic policy (NEP) or economic reforms that comprised mainly removal of industrial licensing all industries barring 18 industries, abolishing the MRTP Act, reducing industrial reservation of the public sector from 17 to 8 industries, and substantial reductions in tariff rates etc.
22. The share of contract workers rose from 32 percent to 60.4 percent over period 1999-2000/2011-12 in the organised manufacturing

23. The existence of unorganised segment along with organised manufacturing sector
24. As defined in the Eleventh Five Year Plan (2007-12), inclusive growth will occur if surplus labour from the agriculture sector can be shifted to the organised or unorganised manufacturing sector in gainful employment.

References

- Ahluwalia, M. S. (2018). India's 1991 Reforms: A retrospective overview. *India transformed: Twenty-five years of economic reforms*, 47-67.
- Amirapu, Amrit, and Arvind Subramanian. "Manufacturing or services? An Indian illustration of a development dilemma." *Centre for Global Development Working Paper* 408 (2015).
- Haggard, Stephan. *Pathways from the periphery: The politics of growth in the newly industrializing countries*. Cornell University Press, 1990.
- Harvey, David. "Neoliberalism is a political project." *Jacobin magazine* (2016).
- Joshi, Vijay, and Ian Malcolm David Little. *India's economic reforms, 1991-2001*. Oxford University Press, 1996.
- Singh, Bir. "Contractualisation in India's manufacturing industry and the economic reforms of the early 1990s: an analysis based on ASI data." *International Journal of Economic Policy Studies* 16.1 (2022): 135-157.
- Singh, H. (2019). The rise of the new middle class: No political party can afford to take them for granted (<https://www.financialexpress.com/opinion/the-rise-of-the-new-middle-class-no-political-party-can-afford-to-take-them-for-granted/1564131/>)
- Thorat, Sukhadeo, and Katherine S. Newman. "Caste and economic discrimination: Causes, consequences and remedies." *Economic and Political Weekly* (2007): 4121-4124.
- Wooldridge, J. M. *Introductory econometrics: A modern approach*. 2015. Nelson Education.