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## ACCOUNTING FOR WAGE INEQUALITY IN INFORMAL SECTOR

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## ABSTRACT

The wage and employment policies relating to the unorganised workers and in particular the issue of wages paid to them has been a subject of considerable discussion among union leaders and labour experts in India. While minimum wage legislation has to a large extent been effective in providing protection to workers in the organised sector, with periodic revision, this has not been the case with the unorganised workers, who largely remain outside the purview of minimum wage legislation. During the year 1999-2000, the labour force was estimated to be 407 million. In 2004-05 the labour market consisted of 469.06 million workers and has grown up to 509.3 million in the year 2006. The labour force growth rate accelerated from 1.03 per cent to 2.93 per cent (more than the population growth rate). This paper investigates the structure and growth rate of wage inequality among workers of informal manufacturing sector of India during post liberalisation period.

## **KEYWORDS**

unorganised, minimum wages, labour market, wage inequality, post liberalisation.

## INTRODUCTION

The impact of structural adjustment programme on employment would be observed more in unorganised sector. Given the dualistic nature of the labour market in India, most of the new employment in the restructured economy due to retrenchment and barriers to entry in the organised sector may occur in the unorganised sector. Therefore, workers crowd into the informal sector, or join the army of casual labourers or self-employed where low productivity and decrease in real wages is observed (Ghose, 1992 and Bhalla, 1996). Unorganised sector is now seen as the next engine of growth for the Indian economy as it gives employment to more than 92% of the labour force but still this sector is neglected so far. The workers in this sector work in almost every dingy and grimy situation, along with their families. They sweat in the scorching summer and strive for far more than eight hours without a single break, yet they are at the last end of the row to have either weekend holidays or other social-safety benefits. They have the vast majority of employed, unemployed and self employed work force of 390 million. Their percentage is quite high, approximately 93 per cent, even though, they are not the part of any organized work. They are not on any list, register or any official document. They are the unnamed contributors to the national income. This research paper has explored the unorganised manufacturing sector in India both intensively and against the broader macro-economic perspective to examine the growth of annual emoluments per hired worker.

## **OBJECTIVES OF THE STUDY**

Main objective of this paper is to study the inequality of emoluments per hired worker in the unorganised manufacturing sector of India in post liberalisation period.

## **REVIEW OF LITERATURE**

Mitra (2006) focused on the reasons of low wages prevailing in the informal sector. He argued for state support for improving the quality of employment in this sector, which provides sources of livelihood to a sizeable proportion of the work force. One important consideration was to raise the wage levels in the informal sector by improving the productivity. Skill formation and up-gradation, micro-credit and marketing assistance were some of the ways of enhancing productivity. Marjit and Kar (2005) examined whether the informalisation has been accompanied by an increase in real informal wage, capital investment and value added in manufacturing at the all India level. The study found that as compared to the pre-reform period (1984-85 to 1989-90), the post-reform period (1989-90 to 1999-2000) witnessed an increase in informal wage (in manufacturing) accompanied by a real increase in fixed assets (proxy for capital investment) and value added. These results hold good for most of the states and union territories. The study pointed out that in order to understand the impact of reforms on labour market; one has to assess the working of the capital market as well.

Chandola (1995) studied the nature of garment manufacturing units and women workers in unorganised segment of these units situated in Lucknow, Kanpur, Varanasi and Delhi. The emphasis was that the industry practised wage exploitations; the production process was fragmented and decentralised. The decentralisation of unorganised sector was done with a view to have cheap labour and escape government regulations. The women worked as piece rate workers; there was easy entry into the labour market which forces them to seek employment as unorganised labour leading to exploitation.

## **DATA SOURCE & METHODOLOGY**

Source of the study is NSSO (National Sample Survey Organisation) surveys which provide extensive data on unorganised manufacturing sector. NSSO defines the unorganised /informal sector in terms of all unincorporated proprietary enterprises and partnership enterprises (GOI 2001). NSSO provides data for about 23 sub-sectors as per National Industrial Classification. All classification has been adjusted according to National Industrial Classification, 98 as per the concordance table provided by NSSO. This data is further disaggregated into rural-urban segments. The data provided by NSSO is classified into three types of enterprises namely, Own Account Manufacturing Enterprises (OAMEs), Non-directory Manufacturing Enterprises (NDMEs), Directory Manufacturing Enterprises (DMEs). NSSO defines OAMEs as those enterprises which operate with no hired worker on a fairly regular basis. NDMEs are those enterprises which employ less than six workers including household workers and DMEs employ six or more workers with at least one hired worker but not registered under the Factory Act 1948 (NSSO, 2002).For analysing the data, simple averages, annual compound growth rates and correlation coefficients have been used.

## **EXPLANATION**

An attempt has been made to analyse the growth of annual emoluments per hired worker. For this purpose only the NDMEs and DMEs are taken into account because OAMEs are the enterprises which are run without any hired workers on fairly regular basis. **Table 1 and 2** give the estimated annual emoluments per hired worker and their growth rates in different types of enterprises at constant prices (at 1982 prices) since 1994-95. During the period 1994-95, the annual emoluments per hired worker in the unorganised manufacturing sector of India comes out to be ₹ 3357. The hired workers are getting more emoluments in DMEs (₹ 3006). These annual emoluments in the urban areas (₹ 4099) are twice that of the rural areas (`2254). In case of NDMEs, the annual emoluments are `2274 in the rural areas in contrast to `3400 in the urban areas whereas in case of DMEs the annual emoluments in the urban areas are more than double (`4623) the rural areas (`2244). In the rural areas, there is not much difference in the annual emoluments of NDMEs and DMEs but the same are more for DMEs in comparison to NDMEs in the urban areas. So during 1994-95, the hired workers are getting more emoluments at all India level

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are estimated at ₹ 4164. These emoluments are more in case of DMEs (₹ 4328) in comparison to NDMEs (₹ 3901). The rural-urban break-up shows that the emoluments of urban workers are very high in comparison to their rural counterpart and in the urban areas; the emoluments of hired workers are more in case of DMEs than that of NDMEs. For the period 2005-06 the annual emoluments at all India level comes out to be ₹ 4923. Like the preceding period, these emoluments are more for DMEs (₹ 5468) in comparison to NDMEs and similarly same are very high in the urban areas (₹ 5775) in contrast to rural areas (₹ 3733). Thus, the hired workers of DMEs are getting more emoluments than those of NDMEs in the rural as well as urban areas and the increase in the emoluments in DMEs is always greater than that of NDMEs. This can also be observed from **Table 2.**.The table shows that the growth of emoluments during 1994-95 to 2000-01 was much higher than the period 2000-01 to 2005-06 and the difference of the growth between the NDMEs and DMEs was not as wider as observed during the period 2000-01 to 2005-06. The period 2000-01 to 2005-06 also observed a huge gap in growth rates in rural and urban wages, showing that rural wages grow at a much higher pace as compared to urban wages. The workers in DMEs could see much higher growth prospects as compared to those employed in NDMEs. This analysis could be deeply proved by analysing the sector-wise growth of emoluments (**See Table 3 and 4**).

### TABLE 1: ANNUAL EMOLUMENTS IN (₹) PER HIRED WORKER IN UNORGANISED MANUFACTURING SECTOR IN INDIA BY TYPE OF ENTERPRISE AT CONSTANT PRICES (1982 PRICES)

| YEAR    | Type of Enterprise | Rural | Urban | Combined |  |  |  |  |  |  |  |
|---------|--------------------|-------|-------|----------|--|--|--|--|--|--|--|
| 1994-95 | NDMEs              | 2274  | 3400  | 3006     |  |  |  |  |  |  |  |
|         | DMEs               | 2244  | 4623  | 3585     |  |  |  |  |  |  |  |
|         | All Enterprises    | 2254  | 4099  | 3357     |  |  |  |  |  |  |  |
| 2000-01 | NDMEs              | 2936  | 4361  | 3901     |  |  |  |  |  |  |  |
|         | DMEs               | 2951  | 5465  | 4328     |  |  |  |  |  |  |  |
|         | All Enterprises    | 2946  | 4985  | 4164     |  |  |  |  |  |  |  |
| 2005-06 | NDMEs              | 3313  | 4402  | 3981     |  |  |  |  |  |  |  |
|         | DMEs               | 3949  | 6637  | 5468     |  |  |  |  |  |  |  |
|         | All Enterprises    | 3733  | 5775  | 4923     |  |  |  |  |  |  |  |

Source: Calculated from NSSO 1998 (Report No. 434), NSSO 2002 (Report No 480) & NSSO 2008 (Report No 525)

## TABLE 2: GROWTH RATE OF ANNUAL EMOLUMENTS PER HIRED WORKER IN UNORGANISED MANUFACTURING SECTOR IN INDIA BY TYPE OF ENTERPRISE AT

| CONSTANT PRICES (1982 PRICES) |                    |       |       |          |  |  |  |  |  |
|-------------------------------|--------------------|-------|-------|----------|--|--|--|--|--|
| YEAR                          | Type of Enterprise | Rural | Urban | Combined |  |  |  |  |  |
| 1994-95 to 2000-01            | NDMEs              | 4.35  | 4.24  | 4.31     |  |  |  |  |  |
|                               | DMEs               | 4.68  | 2.83  | 3.19     |  |  |  |  |  |
|                               | All Enterprises    | 4.57  | 3.31  | 3.66     |  |  |  |  |  |
| 2000-01 to 2005-06            | NDMEs              | 2.45  | 0.19  | 0.41     |  |  |  |  |  |
|                               | DMEs               | 5.99  | 3.96  | 4.79     |  |  |  |  |  |
|                               | All Enterprises    | 4.85  | 2.98  | 3.41     |  |  |  |  |  |

Source: Calculated from NSSO 1998 (Report No. 434), NSSO 2002 (Report No 480) & NSSO 2008 (Report No 525)

Table 3 shows that the sectors of manufacturing of agro foods, textiles and wood & wood products, which provide employment to largest number of people, are placed at the lowest end of the rankings of the emoluments while the sectors like manufacturing of metal products, basic metals and machineries which employ fewer number of workers are listed among the highest paid sectors. These are also the sectors which have exhibited very high growth rate of emoluments during both the time periods. However, the sector of agro foods has also registered a positive growth rate of emoluments. Interestingly, the growth of emoluments in this sector during 1994-95 to 2000-01 was mainly due to higher growth in urban areas but during 2000-01 to 2005-06, it was because of due to rural areas.

#### TABLE 3: ANNUAL EMOLUMENTS IN (₹) PER HIRED WORKER IN UNORGANISED MANUFACTURING SECTOR IN INDIA BY INDUSTRY GROUP AT CONSTANT PRICES (1982 PRICES)

| Industry Name                 | 1994-95 |       |          | 2000-01 |       |          | 2005-06 |       |                    |
|-------------------------------|---------|-------|----------|---------|-------|----------|---------|-------|--------------------|
|                               | Rural   | Urban | Combined | Rural   | Urban | Combined | Rural   | Urban | Combined           |
| Agro Foods                    | 1803    | 3233  | 2263     | 1891    | 4135  | 2706     | 2904    | 4496  | 3380               |
| Textiles                      | 2462    | 4262  | 3494     | 3010    | 4882  | 4331     | 3192    | 4913  | 4365               |
| Wood & Wood Products          | 2568    | 3814  | 3339     | 3661    | 4921  | 4421     | 4109    | 5010  | 4555               |
| Paper & Paper Products        | 2246    | 4166  | 3929     | 3809    | 5100  | 4998     | 3893    | 6214  | 5840               |
| Leather & Leather Products    | 2979    | 3651  | 3602     | 3823    | 4597  | 4535     | 3234    | 4450  | 4284               |
| Chemicals & Chemical Products | 1962    | 3273  | 2747     | 2100    | 5436  | 3342     | 2894    | 5742  | 3926               |
| Rubber & Plastic Products     | 3131    | 4468  | 4320     | 4433    | 5561  | 5268     | 5105    | 6150  | <mark>58</mark> 49 |
| Non-Metallic Mineral Products | 1959    | 2915  | 2156     | 3356    | 3925  | 3452     | 4473    | 4721  | 4516               |
| Basic Metals                  | 4516    | 4531  | 4530     | 5692    | 5590  | 5618     | 10191   | 6520  | 7473               |
| Metal Products                | 2555    | 4213  | 3996     | 4058    | 5034  | 4869     | 4823    | 9459  | 8587               |
| Machineries                   | 2993    | 5021  | 4798     | 4570    | 6415  | 6238     | 7059    | 7967  | 7869               |
| Transport Equipments          | 3143    | 4648  | 4519     | 5572    | 6120  | 6068     | 5702    | 5696  | 5698               |
| n.e.c.                        | 3082    | 4170  | 3925     | 3707    | 4996  | 4681     | 4671    | 5262  | 5090               |
| All                           | 2254    | 4099  | 3357     | 2946    | 4985  | 4164     | 3733    | 5775  | 4923               |

Source: Calculated from NSSO 1998 (Report No. 434), NSSO 2002 (Report No 480) & NSSO 2008 (Report No 525)

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## TABLE 4: GROWTH RATE OF ANNUAL EMOLUMENTS PER HIRED WORKER IN UNORGANISED MANUFACTURING SECTOR IN INDIA BY INDUSTRY GROUP AT

| Industry Name                    | Rural                 |                       | Urban                 |                       | Combined               | Combined              |  |
|----------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|------------------------|-----------------------|--|
|                                  | 1994-95 to<br>2000-01 | 2000-01 to<br>2005-06 | 1994-95 to<br>2000-01 | 2000-01 to<br>2005-06 | 1994-95 to 2000-<br>01 | 2000-01 to<br>2005-06 |  |
| Agro Foods                       | 0.79                  | 8.97                  | 4.19                  | 1.68                  | 3.02                   | 4.55                  |  |
| Textiles                         | 3.41                  | 1.18                  | 2.29                  | 0.12                  | 3.64                   | 0.15                  |  |
| Wood & Wood Products             | 6.09                  | 2.33                  | 4.34                  | 0.35                  | 4.79                   | 0.60                  |  |
| Paper & Paper Products           | 9.20                  | 0.44                  | 3.43                  | 4.03                  | 4.09                   | 3.16                  |  |
| Leather & Leather Products       | 4.25                  | -3.29                 | 3.91                  | -0.64                 | 3.91                   | -1.13                 |  |
| Chemicals & Chemical<br>Products | 1.15                  | 6.62                  | 8.83                  | 1.10                  | 3.32                   | 3.27                  |  |
| Rubber & Plastic Products        | 5.96                  | 2.86                  | 3.72                  | 2.03                  | 3.36                   | 2.11                  |  |
| Non-Metallic Mineral<br>Products | 9.39                  | 5.91                  | 5.08                  | 3.76                  | 8.16                   | 5.52                  |  |
| Basic Metals                     | 3.93                  | 12.35                 | 3.56                  | 3.12                  | 3.66                   | 5.87                  |  |
| Metal Products                   | 8.02                  | 3.51                  | 3.01                  | 13.44                 | 3.35                   | 12.02                 |  |
| Machineries                      | 7.31                  | 9.08                  | 4.17                  | 4.42                  | 4.47                   | 4.76                  |  |
| Transport Equipments             | 10.01                 | 0.46                  | 4.69                  | -1.42                 | 5.03                   | -1.25                 |  |
| n.e.c.                           | 3.12                  | 4.73                  | 3.06                  | 1.04                  | 2.98                   | 1.69                  |  |
| All                              | 4.57                  | 4.85                  | 3.31                  | 2.98                  | 3.66                   | 3.41                  |  |

Source: Calculated from NSSO 1998 (Report No. 434), NSSO 2002 (Report No 480) & NSSO 2008 (Report No 525)

Finally, an attempt has been made to find the correlation of wages with some factors such as nature of job, gender of worker and labour productivity. It is generally assumed that the male workers earn the higher wages as compared to women and same is the case with full time workers who work for longer hours as compared to part-time workers. Moreover, more productive workers are rewarded with higher wages.

**Table 5** has depicted such relations in the unorganised manufacturing sector of India. It has been observed that in urban areas the gender of the workers doesnot affect the level of wages in the unorganised manufacturing sector of India but in rural areas, units employing more of female workers have lower wages.During both the time periods labour productivity has significant positive relation with wages for both types of enterprises in rural as well as urban areas.

### TABLE 5: CORRELATION COEFFICIENT OF WAGES WITH CERTAIN VARIABLES

| Variables                    | Rural    |          | Urban    |          | Combined |          |
|------------------------------|----------|----------|----------|----------|----------|----------|
|                              | NDMEs    | DMEs     | NDMEs    | DMEs     | NDMEs    | DMEs     |
| 2000-01                      |          |          |          |          |          |          |
| Full Time Workers            | 0.296*   | 0.208    | 0.220    | -0.70    | 0.492*** | 0.064    |
| Percentage of Male Workers   | 0.245    | 0.429**  | 0.190    | 0.066    | 0.062    | 0.257    |
| Percentage of Female Workers | -0.245   | -0.429** | -0.190   | -0.066   | -0.062   | -0.257   |
| Labour Productivity          | 0.882*** | 0.291    | 0.667*** | 0.811*** | 0.844*** | 0.400*** |
| 2005-06                      |          |          |          |          |          |          |
| Full Time Workers            | 0.223    | 0.065    | -0.125   | 0.174    | -0.10    | 0.148    |
| Percentage of Male Workers   | 0.300*   | 0.297*   | -0.032   | 0.139    | -0.020   | 0.419**  |
| Percentage of Female Workers | -0.300*  | -0.297*  | 0.032    | -0.139   | 0.020    | -0.419** |
| Labour Productivity          | 0.738*** | 0.345    | 0.676*** | 0.472**  | 0.726*** | 0.455*** |

Source: Calculated from NSSO 2002 (Report No. 479, 480), NSSO 2007 (Report No. 526) & NSSO 2008 (Report No. 525) Note:

- \*\*\* Significant at 99 per cent level
- \*\* Significant at 95 per cent level
- \* Significant at 90 per cent level

## **FINDINGS OF STUDY**

The analysis of emoluments of the workers employed in the unorganised manufacturing sector shows that the absolute amount of wages (at constant prices) as well as the growth rate of wages was higher in the DMEs as compared to NDMEs. Sadly, it can be observed that the sectors of manufacturing of agro-foods, textiles and wood & wood products which employ largest number of persons are placed at the lower end of the emoluments. Thus, a majority of the workers are paid very low wages. On the other hand, the sectors of manufacturing of metal products, basic metals and machineries not only pay higher amount to their workers but have also observed the highest growth rates of wages as compared to other sub-sectors in the unorganised manufacturing sector of India. The study shows that in the rural areas, the female workers earn lesser wages as compared to males, while labour productivity has significant positive relation with wages in every type of enterprises in rural as well as urban areas.

## CONCLUSION

To sum up, we can say that The DMEs and modern industries have registered high growth of wages. However, since majority of workers are employed in traditional, low productive and less paid sectors, the quality of their employment is also very low. Thus, in view of its tremendous importance there is a need to focus efforts and attention to develop a comprehensive understanding about the problems, needs, issues, and changes that are taking place in this sector. If properly nurtured it can expand and develop optimally and can play an important role in the process of economic development

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