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Sluggish Growth in Industry-Inadequate Skill Development or Rigidity of Labour Laws?

Raavi Aggarwal -3rd year

Summary: *It is often said that India's population is both its strength and weakness. With a workforce rivaled only by China, and demographic dividend within reach, India's future seems bright. At the same time though, moving beyond the apparent, the big question is that "Will India be able to realise this potential?" The article deals with this and moves beyond the discussion of the hindrances faced by the Indian industries in the form of infrastructural bottlenecks, and the rigidity of laws, and questions the extent of the damage caused in the process.*

It is estimated that India will become the most populous country in the world by 2025. By 2020, its adult working population would comprise 66% of the total population. The country undoubtedly provides the largest share of skilled and unskilled labour witnessed in the global economy. Yet the growth of the industrial and manufacturing sectors remains dismal. In 2013-2014, the secondary sector grew at a paltry rate of 0.5%. Notably, there's been a high degree of variation across the last decade as well. While the growth rate touched a staggering 20% in 2006, it later plunged to -7.2% in 2009, (*Trading Economics Data, MOSPI*).

Perhaps greater FDI is the panacea to the industries' problems. However, factories in India face several structural bottlenecks including water and electricity shortages that can dissuade firms from producing, despite the availability of cheap labour. Mr. Modi's

central pitch with respect to FDI has been the motto, "First Develop India", rather than maintaining a singular focus on attracting foreign investment. Indeed, India's development policies play a key role in determining industrial growth in employment and output. Greater technological advancement and improvements in productivity can, in turn, aggrandize GDP growth. Nevertheless, this economic enigma requires a multi-faceted approach and other aspects yet to be examined.

"Democracy, Dividend and Demand is what India has to offer", reiterates the honorable Prime Minister, when addressing investors abroad. Democracy has its apparent benefits in a populous, multi-cultural country like India. The system ensures transparency, gives credence to public opinion and also prioritizes growing businesses. However, whether India will be able to capitalize on its favorable age structure and hence, realize its demographic dividend is, on the other hand, debatable. Advocates of the demographic bonus claim that with majority of its population being in the adult working age group (15-59 years), the Indian economy is sure to augment its growth since a greater portion of the population shall be employed (*K S James, 2008*). This age structure can be contrasted with that of the Japanese economy, which is progressing towards a comparatively ageing population with larger number of senior citizens who would, in turn, demand higher pensions and retirement schemes in the future.

Economic research establishes that the relationship

between the age structure of a population and its corresponding effects on economic growth does de facto hold strongly positive (K S James, 2008). However, critics of this theory argue that the Indian economy would not be able to achieve the positive benefits of the dividend due to its several infrastructural bottlenecks. Low literacy rates, poor nutritional & health status along with institutional hindrances such as water and electricity shortages, ambiguous property rights et al, all result in low industrial output. Economists also ascribe an inept macroeconomic and fiscal environment, which could lead to potential wastage of India's demographic dividend.

However, it is not merely inadequate skill development that has stymied growth in the manufacturing sector. The intensity of Indian labour laws has also played a central role in shaping the labour market environment. Labour laws in India are often perceived to be too restrictive on employers as compared to those in other Asian economies and developed nations. Further, the government places greater emphasis on laws that regulate hiring and retrenchment of the labour force than on the working conditions within factories. The Industrial Disputes Act, 1947, responsible for adjudication of disputes and modulation of laws pertaining to retrenchment & exit of workers, has been the most contentious legislation among employers. The most disputative clause of the act requires a firm that has more than 100 employees, to obtain prior authorization from the government before laying off an employee; such permission is seldom granted (Ahsan, Pages and Roy, 2008).

The other law that has been highly polemical among firms is the Contract Labour (Regulation and Abolition) Act, 1970. This act regulates the working

conditions of contractual labourers with the intention of ensuring homogeneity of work conditions across permanent and casual labourers (Ahsan, Pages and Roy, 2008). In the end, the twin effects of both these stringent laws are more detrimental than beneficial to the Indian labour force. The intractability of such legislation generates economic inefficiency in labour markets, which otherwise demand greater flexibility. Consequently, firms attempt to circumvent laws by hiring fewer workers and offering only contractual positions.

In essence, greater FDI is not an elixir to the problems of the industrial sector. However, larger investments coupled with stronger emphasis on development-oriented policies would positively influence India's growth story. Thus, an improvement in the health and nutritional status of workers, along with substantive improvements in education and skill development of the labour force would help accentuate the industrial growth rate. In addition, greater openness to trade and mitigation of the supply-side bottlenecks would contribute positively as well. Further, greater flexibility in the labour markets through reforms of legislation would boost competitiveness of the labour force and thus, promote technological advancement. This cyclical process would, in time, generate multiplicative growth rates in the industry.

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India: Growth or Inclusive Growth?

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Summary: Best-fit growth strategy conundrum has been a pivotal point of discussion among economists. Whether a top down approach to growth via a trickle

down growth strategy or a bottom-up approach fits the Indian model best, is highlighted upon in this article. What is required in the Indian context? Should