



RESEARCH ARTICLE

LABOUR MARKET DICHOTOMY: AN ANALYSIS OF POST-LIBERALIZATION PERIOD

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ABSTRACT

Despite decades of planning, dichotomy of labour market has been one of the salient features of economic development in India. But, it is considered to be a transitory phenomenon in the long run process of economic development. Indian economy has been undergoing liberalisation since 1991. In this context this paper seeks to throw light on the dichotomy of labour market in post-liberalisation period. The paper also analyses the determinants of employment in the informal sector.

Key words:

Dichotomy, Labour Market,
Work Participation Rate.

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INTRODUCTION

Economic development in India has been characterized with dichotomy of labour market. The coexistence of the formal sector with the informal sector is defined as dichotomy of labour market. In the labour surplus theory of economic development, it is postulated that dichotomy is a temporary phenomenon and the size of the informal sector will shrink with economic development. Harris-Todaro model¹ of rural-urban migration divided the urban labour market into two parts, viz. protected and unprotected sectors and the latter could be viewed as informal sector. The model identified migration as an equilibrating force that cleared the labour market, given the difference between rural and urban wage based on cost of living differential and the facility of job search in urban areas. The simultaneous existence of open unemployment and migration pointed to the possibility of market failure and the model sought to explain this by incorporating a new variable, viz. the probability of obtaining a protected sector job in the urban economy. When migration is induced, the urban labour supply soars up exceeding the number of available jobs. The excess job seekers are temporarily accommodated in informal sector where they form a queue for protected sector jobs. This queue reduces the

probability of getting a job and checks migration. Thus, the informal sector is depicted as a residual outgrowth of migration and employment in the sector is regarded as transitory one. But in Indian economy ever since 1991 the labour market has been undergoing changes due to the Structural Adjustment Programme. In this context this paper seeks to examine the labour market in the post-liberalization period. The paper is organised as follows: The first section examines the work participation rate in India. The second section analyses the employment of labour in the post-liberalisation period. The final section studies the determinants of employment.

Table 1. Distribution of workers by sectors

Period	Male			Female		
	Primary	Secondary	Tertiary	Primary	Secondary	Tertiary
Rural						
1993-94	74.1	11.2	14.7	86.2	8.3	5.6
1999-00	71.4	12.5	16.1	85.4	9.0	5.8
2004-05	66.5	15.5	18.0	83.3	10.2	6.6
2011-12	59.4	22.0	18.7	74.9	16.7	8.3
Urban						
1993-94	9.0	33.0	57.9	24.7	29.7	46.3
1999-00	6.6	32.8	60.8	17.7	29.4	52.9
2004-05	6.1	34.4	59.5	18.1	32.4	49.5
2011-12	5.6	35.3	59.1	10.9	34.0	55.1

Source: NSS (various rounds), Government of India

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¹J. R. Harris and M. P. Todaro, "Migration, Unemployment and Development: A Two-sector Analysis", *American Economic Review*, March 1970, PP 126-142.

Table 1 furnishes the data on the distribution of workers by sector of employment in India. The table shows that about 75 percent of female workers and around 60 percent of male workers belong to the primary sector of rural areas. Tertiary sector is the dominant provider of employment for men and women in urban areas. There is gradual decrease in primary sector employment and steady increase in secondary and tertiary sector employment in the post-1991 period irrespective of the gender and region.

Table 2. Work Participation Rate in India

		Persons		Males		Females	
Year		2001	2011	2001	2011	2001	2011
Total	Population	1025.2	1210.2	530.4	623.7	494.8	586.4
	No. of workers	402.5	481.7	275.5	331.8	127.0	149.8
	% of workers	39.26	39.80	51.94	53.20	25.67	25.54
Rural	Population	740.2	833.1	380.4	427.9	359.8	405.1
	No. of workers	310.6	348.6	199.2	226.7	111.5	121.8
	% of workers	41.96	41.84	52.37	52.98	30.99	30.07
Urban	Population	285.0	377.1	150.0	195.8	135.0	181.3
	No. of workers	91.9	133.15	76.3	105.1	15.6	28.04
	% of workers	32.24	35.31	50.87	53.68	11.56	15.47

Source: Census of India 2001 and 2011

Note: Population and workers are in million

Table 2 shows the Work Participation Rate (WPR) in India in the post-liberalization period. The rural-urban variations can also be seen in the table. While male WPR increased, female WPR decreased during the period. Male WPR is increasing in both rural and urban areas whereas the female WPR is declining in rural areas. There is an increasing WPR trend in urban areas compared to rural areas.

Table 3. Category of Employment in India on usual status basis

Category of Employment			
Year	Self employment	Regular Salaried	Casual
1. Rural Areas			
1993 - 94	58.0	6.4	35.6
1999 - 2000	56.0	6.7	37.3
2004 - 05	57.3	7.8	35.0
2009 - 10	54.2	7.3	38.6
2011 - 12	56.0	9.0	35.0
2. Urban Areas			
1993 - 94	42.3	39.4	18.3
1999 - 2000	42.1	40.1	17.8
2004 - 05	43.8	41.1	15.1
2009 - 10	45.1	41.4	17.5
2011 - 12	42.0	43.0	15.0
3. Rural and Urban Combined			
1993 - 94	54.8	13.2	32.0
1999 - 2000	52.9	13.9	33.2
2004 - 05	53.8	16.26	29.9
2009 - 10	51.0	15.6	33.5
2011 - 12	52.0	18.0	30.0

Source: NSSO Surveys

Table 3 presents the data on the category of employment on usual status basis for rural and urban areas in post-liberalization period. The table shows that in 2011–12 the proportion of self-employment is 52 percent and casual employment is 30 percent whereas the regular salaried employment is only 18 percent. It is also shown that the share of regular salaried employment in urban areas is 43 percent while it is only 9 percent in rural areas. Although self-

employment is higher in rural areas, it has remained more or less at 43 percent in urban areas.

Table 4 illustrates the differences in rural and urban unemployment in the post-liberalization period. The table indicates that the difference in unemployment rates has narrowed down to 5.7 percent and 5.5 percent in rural and urban areas respectively in 2011–12 on Current Daily Status (CDS) basis.

Table 4. Unemployment on C D S basis

Survey Period	Rural Areas	Urban Areas
1993 - 94	5.6	7.4
1999 - 2000	7.2	7.7
2004 - 05	8.28	8.28
2009 - 10	6.8	5.8
2011 - 12	5.7	5.5

Source: National Sample Survey Organisation Surveys

Table 5. Organized and unorganized Workers in India

	Total (Million)	% of total
Total Workers	457.5	100.0
a)Agriculture	258.9	56.6
b)Non - agriculture	198.5	43.4
Organized Workers	34.9	7.6
a)Agriculture	2.9	0.6
b)Non - agriculture	32.0	7.0
Unorganized Workers	422.6	92.4
a)Agriculture	256.0	56.0
b)Non - agriculture	166.5	36.4

Source: National Commission for Enterprises in the Unorganised Sector (2007)

Table 6. Determinants of Employment

Reason	Sample	Percentage
Expectation of Income	9	7.50
Easy to Enter	64	53.33
Independence	32	26.67
Family connection	4	3.33
No other option	8	6.67
Others	3	2.50
Total	120	100

Source: Field data

Table 5 indicates that unorganized workers constitute 92.4 percent of the total workforce. Among the 423 million workers in the unorganized sector, agricultural workers are 56 percent. The term used to denote the informal sector in Indian National Accounts Statistics is unorganized sector. The unorganised sector consists of all unincorporated private enterprises owned by individuals or households engaged in the sale and production of goods and services operated on a proprietary or partnership basis and with less than ten total workers² The

Census of India 1991, 2001 and 2011 data also reveal that the informal sector workers constitute more than 90 percent of the total workers in India. Thus, there is persistence of employment in the informal sector in post-liberalization period. In order to study the determinants of employment a field study was conducted at pathanamthitta in Kerala. Table 6 examines the reasons for the choice of employment in the informal sector on the basis of the study.

The data show that the chief determinant of employment in the informal sector is the ease of entry. Out of 120 samples, the majority of samples (53.33 percent) reported ease of entry as the main reason for choosing employment in the informal sector. Thirty two samples (26.67 percent) wanted their employment to be independent from government control and all other kinds of restrictions and limitations. There were other minor reasons like income expectation and family inheritance. Eight (6.67 percent) samples had no other option. So, the informal sector employment is their only option. To conclude, there is dichotomy of labour market in the post-liberalisation period. This dichotomy is not a temporary or transitory phenomenon. The ease of entry and independence are the main determinants of employment in the informal sector. Liberalisation could not eliminate labour market dichotomy as liberalisation has not done away with the problems of ease of entry and independence.

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²NCEUS (2007), Report on conditions of work and promotion of livelihoods in the unorganised sector, P. 3
