

Contract Workers in Manufacturing

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The persistence and even increase of [informality in production and labour markets in India](#) is often seen as an anomaly given the relatively rapid growth of the economy in the past two decades. But it is likely that it is not competition but complementarity that explains the continued prevalence and even domination of informal activities in both agriculture and non-agriculture, as the informal sector actually services the requirements of the formal economy directly and indirectly.

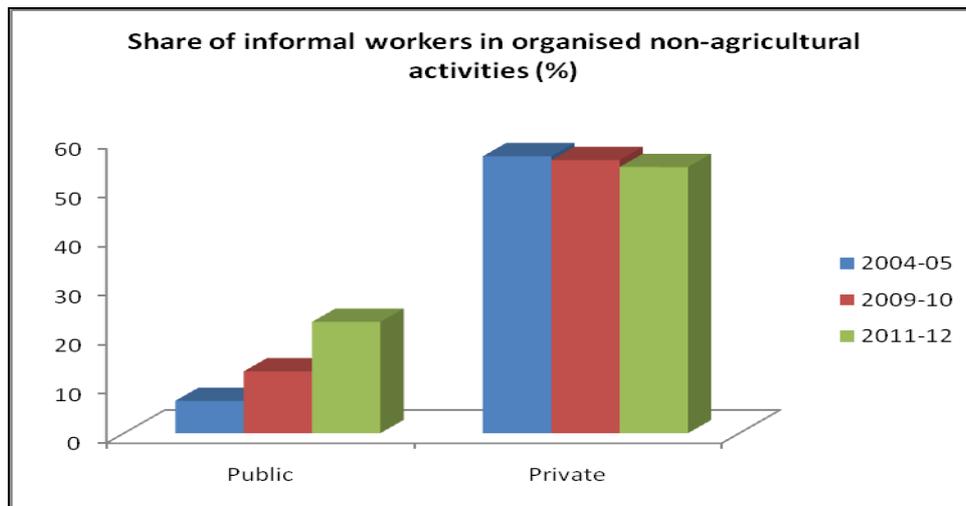
Thus, workers in the informal economy have not simply been excluded from formal employment – they are deeply integrated into it. The perception that the informal economy exists because low wages allow it to compete with the formal sector in a host of non-agricultural activities is essentially misplaced in much of the Indian economy. Rather, in many instances the informal economy is not in competition with the formal sector, but actually services its requirements, and low wages in the informal economy help sustain profits in the formal sector.

Consider for example the software industry, which is generally seen as a shining example of hyper-modernity, an outlier of high productivity that is somehow separate from the vast sea of low productivity work that surrounds it. In actual fact, the ability of this industry to be competitive globally relies crucially on the very cheap supporting services in the form of logistics, security, transportation, cleaning and catering that are provided by companies or individuals that use workers on informal contracts that are well beyond the pale of labour protection. Similarly, the ability to hire highly skilled professionals in this industry at what are clearly salaries below global averages is dependent upon such workers' ability to access goods and services provided cheaply by India's informal workers.

This is equally true of other formal sectors. There is strong evidence of substantial increases in subcontracting by the formal manufacturing industry to more informal production arrangements since 2001. The value chains evident in a number of important exporting industries in sectors as varied as readymade garments, gems and jewellery, automotive components, leather and leather products and sports goods, which are often co-ordinated by large and possibly multinational corporate entities, provide evidence of the significant and increased contribution of informal activities to what are seen as formal sector production. These are only some examples of a wide and pervasive process of extremely close intertwining of formal and informal sectors, and the effective subsidisation of the formal sector by low paid informal activities.

What is more, even the direct dependence upon informal workers is not confined to private employers in the organised sector, but is increasingly common in the public sectors as well. Chart 1 provides data from various rounds of the NSSO employment surveys to show this. While the organised private sector in all non-agricultural activities has been heavily reliant on informal workers, who dominate and account for more than their work force, that proportion has remained largely stable and even declined slightly in recent years. However, the public sector has more than doubled its reliance on informal workers since the mid-2000s, to the point where nearly a quarter of all workers in the public organised sector were informal in 2011-12.

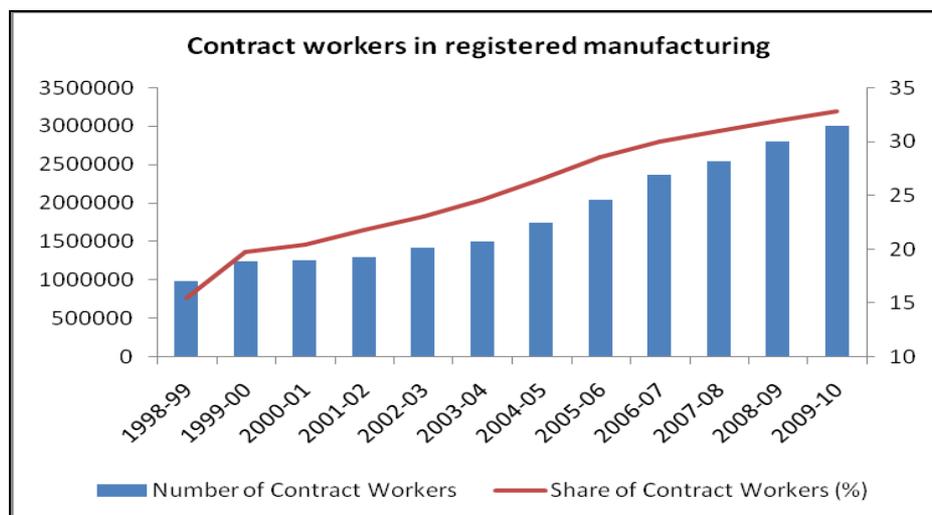
Chart 1: Both public and private organised sectors increasingly employ informal workers



But there is yet another way in which informal workers – that is, those without any effective protection under law – are significant in formal economic activities, and that is through the growing use of contract workers. Contractualisation of work has become a pervasive feature of both public and private sectors in all three major sectors, and is particularly marked in mining, manufacturing industry and some services.

Consider the data from the Annual Survey of Industries on the use of contract workers in registered manufacturing. Chart 2 indicates that the period since 1998-99 has seen a steady and significant increase in both numbers and share of such workers. This was especially marked since the mid-2000s. So, in other words, during the period of economic boom when it might have been expected that there would be greater formalisation or work, Indian manufacturing was growing more reliant on the use of casual contract labour with few legal rights.

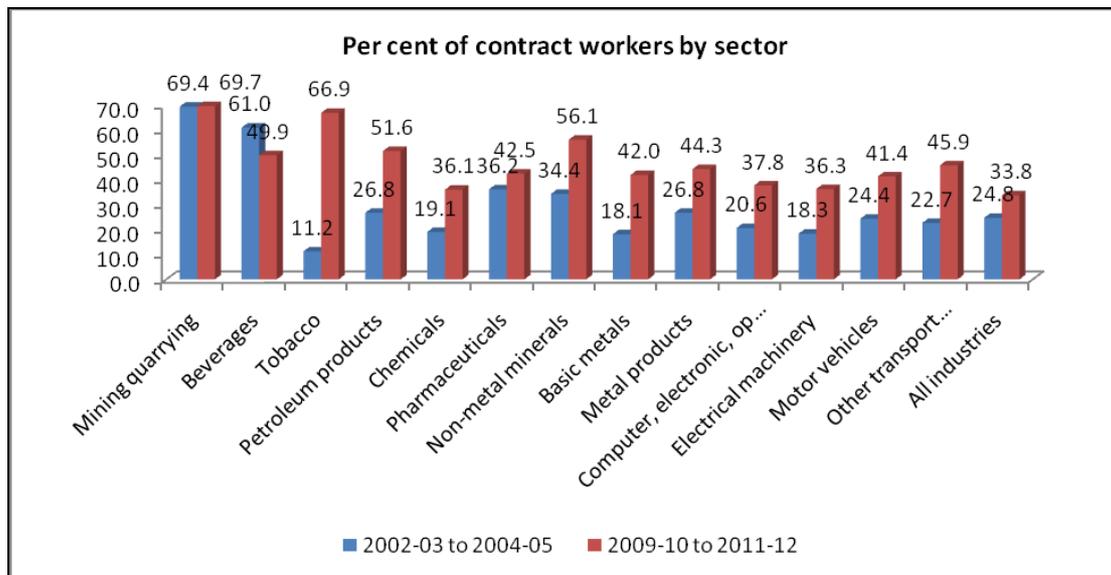
Chart 2: Contract workers have increased sharply in registered manufacturing



This was obviously more marked in some sub-sectors within industry. Chart 3 provides evidence on the changing proportion of contract workers to total over the

past decade in some sectors where the use has been relatively high, using three averages for the periods 2002-03 to 2004-05 and 2009-10 to 2011-12. Registered mining and quarrying activities are among those that have used and continue to use the highest proportion of contract labour, well above two-thirds. But there is also some indication of dramatic increases in the relative use of contract workers in some other sub-sectors, most of all in tobacco, but also in chemical products and non-metallic metals industries. The transport sector in general – both motor vehicles and other transport equipment – also shows sharp rises, around doubling, of the relative importance of contract labour. For beverages the proportion of such workers appears to have come down somewhere, although contract workers are still half of all workers.

Chart 3: Registered manufacturing sub-sectors with significant use of contract workers



Clearly, Indian industry has proved itself to be adept at simply sidestepping labour laws through widespread use of sub-contracting where possible and use of contract labour without workers' rights in other situations. In this context, the frequent complaints about restrictive labour laws appear to be not just misplaced but even hypocritical, since they have clearly not prevented either public or private employers in registered economic activities from doing precisely as they please without regard to the laws, simply by using contract workers. Surely it is time this gigantic bluff was finally called?

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