

Strengthening the Discourse on Economic Policy to Generate Good and Better Jobs in India

5th Project Advisory Committee Meeting

28 January, 2021

Draft Event Report

1. Introduction

The Indian economy across its manufacturing and service sector is encountered with a dual problem of unemployment and lack of decent jobs. This problem is compounded by the increased use of labour replacing technology and changing patterns of domestic and global trade. Among other consequences, it has led to the rise in inequality and has posed an extraordinary challenge before the society in generating decent jobs for its masses.

In this context, CUTS International, with the support of Ford Foundation, India in October, 2018, has initiated a project on “Strengthening Discourse on Economic Policy to Generate Good and Better Jobs in India”.¹ Under this project², CUTS is undertaking research to ascertain the conditions, under which Good and Better Jobs³ can be generated in the Indian economy. For this purpose, rather than looking at the whole economy, few sectors were chosen after discussions with the PAC. Till now, it has conducted research inquiry in Textiles & Clothing Sector and the Food Processing Sector. Accordingly, a report has been developed on the Textiles & Clothing sector⁴ while the report on the Food Processing sector is underway.⁵

In furtherance of this project, a fifth round of Project Advisory Committee (PAC) Meeting was convened on January 28, 2021. The meeting was attended by PAC members along with experts from academia, policy and practice who are well aware of the relevant subjects and

¹ <https://cuts-ccier.org/strengthening-the-discourse-on-economic-policy-to-generate-good-and-better-jobs-in-india/>

² https://cuts-ccier.org/wp-content/uploads/2019/08/Project_Brief.pdf

³ <https://cuts-ccier.org/pdf/framework-for-good-and-better-jobs.pdf>

⁴ <https://cuts-ccier.org/pdf/report-textile-and-clothing-sector-in-india.pdf>

⁵ <https://cuts-ccier.org/pdf/grow-jobs-approach-methodology-note-food-processing-sector.pdf>

possess expertise in areas, including employment, labour, enterprise development and economics. The purpose of the meeting was to discuss the field observations and seek inputs from the experts to render the observations in the form of a report.

This report lists down the major themes covered in the discussion and the questions raised for further deliberation. The list of participants is annexed to the report.

2. Major themes of discussion

2.1 Relationship between the size of an enterprise and the parameters of Good & Better Jobs

There are around 64 million enterprises in the non-farm sector of India. 84% of these enterprises are own account enterprises i.e enterprises working with unpaid household labour. Amongst the rest 16%, majority are those enterprises which employ between 2 to 5 workers, thereby forming major chunk of the micro enterprises category.

CUTS field inquiry has brought out insights on the degraded quality of jobs in the large and medium enterprises and the potential of micro and small enterprises in creating Good & Better Jobs. It observes that the potential of such jobs in terms of incremental wages, skill enhancement opportunities and safe working conditions is less in large & medium enterprises. Amongst many factors which contribute towards such degradation, the primary ones include cost cutting measures by the enterprises with the first target being the labour cost. This reflects from the apathy of the enterprises who consider workers as cost as opposed to assets with incremental value for the enterprise. Furthermore, machines are being deployed for replacing skilled work and lack of investment to respond to hazards accompanying machines.

However, the micro and small enterprises offer the potential of Good & Better Jobs due to reasons like knowledge spillover, skill enhancement opportunities, potential of innovation and access to platform to understand the activities starting from farm to fork. It is not to claim that the micro & small enterprises are dedicated towards worker welfare but to state that micro enterprises have the potential to generate Good & Better Jobs due to the factors specified above while large enterprises with their huge resources are not generating such quality jobs, especially for blue collar workers.

Enterprises of all sizes are under almost similar factor costs pressures, with small and micro facing additional set of unique challenges. However when an enterprise scales up, it gets into a vicious cycle of generating jobs which are characterised by stagnated wages, skills redundancy and major reliance on mechanical productivity.

The NSS unincorporated enterprise survey and ASI data indicates that large & medium enterprises pay better wages to workers as opposed to micro & small enterprises. Also,

when the enterprise grows, the intuitive argument is that it gets into virtuous cycle rather than vicious cycle.

Therefore, the observation from the field should engage with such counter factuals in depth. It should also lay down categorically as to which parameters of Good & Better Jobs are ensured as well as dismissed by enterprises of different sizes. The observation shall also be segregated based on the factors including the size of the enterprise, enterprise association or dissociation with a cluster and their nature of incorporation.

2.2 Relationship between cluster and growth of an enterprise

The relationship between a cluster and the growth of an enterprise has been established by research. Though, it cannot be conclusively stated that the presence of an enterprise in a cluster guarantees its growth. However, it definitely increases the prospects and potential of growth for an enterprise.

The definition of cluster is not limited to the number of enterprises in closed physical proximity but also includes a setting where there are lateral linkages between the enterprises. For instance, a cluster can also include a cooperative which gives number of enterprises the power and ability to capture transactional costs among themselves. Amongst different factors which have a direct or indirect impact on the growth of the enterprise and the parameters of Good & Better Jobs, the role of cluster has to be explored.

It is important to highlight enterprise relation with a cluster as few studies have suggested that units in a given cluster enjoy advantages of agglomeration which stand-alone units are unable to access. It has also been suggested that the likelihood of institutional support in terms of marketing, design, credit and technology to an enterprise in a cluster is higher than to a stand-alone unit. This exploration is also relevant as India's policies on manufacturing clusters are based on the premise that cluster acts as a catalyst for the growth of enterprise India has around 6500 clusters of manufacturing spread across its different regions.

However, CUTS also came across a setting where cluster compactness has not necessarily guaranteed better revenue to the enterprise. A case in point being the cluster of rice milling, rice bran oil and animal feed based in Punjab.

2.3 Capacity of an enterprise to pay versus enterprise's willingness to pay

There is systematic evidence that micro enterprises are the least productive i.e their capacity to pay their workers is extremely minimal. Micro enterprises are situated in low equilibrium trap which means that such enterprises use low technology, invests less on infrastructure and are the least productive. As a result, they are situated in a poverty trap.

It is only when the enterprise scales up that it has the capacity to afford better wages to their workers. In sequential terms, small has higher productivity than micro, medium has higher productivity than small and large has higher productivity than medium. It is also to be noted that the number of manufacturing jobs have been reduced in the five labour intensive sectors of Indian in the last six years.

Furthermore, it has been observed in the field inquiry that there are enterprises which ensures higher productivity at the factory level due to factors like usage of technology, enhanced labour productivity or other operational cost cutting measures. Nevertheless, the capacity/profit gains acquired by the enterprises through higher productivity are not necessarily being directed towards the worker welfare measures and are often utilised for activities related to plant capacity expansion. .

It was stressed upon that the argument is not about suggesting that enterprises should stay small but this study is about exploring how the power to control the gains or to control the distribution of gains is acquired at the enterprise level. Additionally, it also aims to explore as to how the power dynamics are placed at the enterprise level. In other words, CUTS is attempting to understand the structure of enterprises and different methods of aggregation through which either power slips or is retained by the workers.

2.4 Relevance of skills in facilitating Good & Better Jobs

Skill enhancement opportunity is one of the parameters of Good & Better Jobs identified by CUTS in the current research inquiry. It has been observed in the field inquiry that large & medium enterprises offer negligible amount of skill enhancement opportunities. It was observed that the workers of one processing activity have no idea about the other processing activities within the same medium or large enterprise. Moreover, workers end up doing same type of work for years without any new skill acquisition in such enterprises. CUTS' insights from the field inform that enterprises which are micro or small in size have the potential to provide greater avenues of skill enhancement and innovation and prepare workers for the future.

It was also observed in the field inquiry that much of employment in different sub-sectors of the food processing is concentrated in the stage of primary processing and ancillary activities including loading, unloading and logistics. The core processing is majorly dependent on machines where a worker is placed as machine observer to correct the errors of machine. Few exceptions like shrimp processing and gluten free flour were specified as exception to this general observation.

It was pointed out that the existing skill programmes are outdated and doesn't meet the demand of entrepreneurs, workers and the market. Additionally, the skill development

programmes are not aligned with the mandate of respective food processing Departments/Directorate of different states except the state of Meghalaya.

It was stressed upon that there is a need for the skill development programme to be based on the knowledge systems of the factory floor to enhance productivity and ensuring Good & Better Jobs to workers.

2.5 Informing Policy Decisions

The field observations are crucial in informing policy decisions. It was stressed upon that CUTS should lay down different methods for incentivising stakeholders (industry, investors or government) for ensuring Good & Better Jobs for workers. Due to the inadequacy of official data, it was pointed out that if the government formulates policy on the existing official data then the policy may not effectively achieve its intended objectives. The field observations can also inform the existing PLI (production linked incentive) scheme. It is relevant particularly in the context of the field observation where micro & small enterprises have the better potential for the generation of Good & Better Jobs than the medium & large enterprises. If the PLI scheme is targeting large industries for providing incentives then evidence-based data from the field can pitch for restructuring the schemes to provide benefits to cover small and micro enterprises as well.

It was emphasised that the stories from the field should be put out to inform the policy decisions instead of drawing the macro picture.

3. Way Forward

In furtherance of the project, CUTS will undertake desk-based research as well as several rounds of targeted communication and outreach, in pursuit of the larger goal of ‘Strengthening Discourse on Economic Policy to Generate Good and Better Jobs in India.’ Drawing from the discussion, there are questions which needs to be deliberated upon for subsequent research and outreach activities. Key questions are listed below:

- How are the micro & small enterprises better from the medium & large enterprises with respect to the parameters of Good & Better Jobs ?
- Under what circumstances, the productivity and quality of jobs be enhanced with less capital and more labour in an enterprise?
- What are the pitfalls of micro and large enterprises? While scaling up, what factors should micro enterprises avoid or adopt in order not to get into the vicious cycle of generating non decent jobs?

- What are the methods through which the creation of Good & Better Jobs be incentivised? What type of role can be played by stakeholders including government, MNCs and investors?
- In terms of product and different stages of processing, where do the Good & Better Jobs in the food processing sector lie?
- Which type of enterprises grew with time and provided Good & Better Jobs to workers and what were the circumstances under which they grew?
- What are the aggregate learnings from the research inquiry carried out in Textiles & Clothing and the Food Processing sector?

Annexure: List of Participants

S. No.	Name	Designation & Organisation
1	Amit Kapoor	President Institute for Competitiveness Gurgaon, Haryana
2	Amol Kulkarni	Director (Research) CUTS International Jaipur, Rajasthan
3	Anu Gupta	Head – Skills Foreign, Commonwealth and Development Office, UK
4	Arun Maira	Former Member Planning Commission of India, New Delhi
5	Abhishek Kumar	Partner INDICC
6	Bipul Chatterjee	Executive Director CUTS International
7	B.K. Sohliya	Director Meghalaya Institute of Entrepreneurship
8	Gautam Mody	General Secretary New Trade Union Initiative
9	Prashant Tak	Assistant Policy Analyst CUTS International
10	Radhicka Kapoor	Senior Fellow Indian Council for Research on International Economic Relations (ICRIER), New Delhi
11	Santosh Mehrotra	Visiting Professor Centre for Development, University of Bath, UK Ex-Professor of Economics, Jawaharlal Nehru University
12	Samar Verma	Program Officer The Ford Foundation, New Delhi
13	Sarthak Shukla	Assistant Policy Analyst CUTS International Jaipur, Rajasthan
14	Saji Narayanan	In-charge, International Affairs, Bharatiya Mazdoor Sangh
15	Trinayani Sen	Senior Research Associate CUTS International Jaipur, Rajasthan
16	Virjesh Upadhyay	Director General, Dattopant Thengadi Foundation