

Public Disclosure Authorized

Labor Market and Social Insurance Policy in India

A Case of Losing on Both Competitiveness and Caring

Ramgopal Agarwala and Zafar Dad Khan

22718
January 2001

WORLD
BANK
INSTITUTE

WBI Working Papers

Public Disclosure Authorized



FILE COPY

Recent Books from WBI

Case Studies in Participatory Irrigation Management

David Groenfeldt and Mark Svendsen, editors

1999. 169 pages. ISBN 0-8213-4540-0. Stock No. 14540. Price code S22

The Challenge of Urban Government: Policies and Practices

Mila Freire and Richard Stren, editors

2001. 458 pages. ISBN 0-8213-4738-1. Stock No. 14738. Price code S30

Chile: Recent Policy Lessons and Emerging Challenges

Guillermo Perry and Danny M. Leipziger, editors

1999. 437 pages. ISBN 0-8213-4500-1. Stock No. 14500. Price code S35

Corrupt Cities: A Practical Guide to Cure and Prevention

Robert Klitgaard, Ronald MacLean-Abaroa, and H.Lindsey Parris

2000. 175 pages. ISBN 0-8213-4600-8. Stock No. 14600. Price code S20

Curbing Corruption: Toward a Model for Building National Integrity

Rick Stapenhurst and Sahr Kpundeh, editors

1998. 264 pages. ISBN 0-8213-4257-6. Stock No. 14257. Price code S25

Economic Development and Environmental Sustainability

Jose I. dos R. Furtado and Tamara Belt with Ramachandra Jammi, editors

2000. 125 pages. ISBN 0-8213-4573-7. Stock No. 14573. Price code S22

Preventing Bank Crises: Lessons from Recent Global Bank Failures

Gerard Caprio, Jr., William C. Hunter, George G. Kaufman, and Danny M. Leipziger, editors

1998. 392 pages. ISBN 0-8213-4202-9. Stock No. 14202. Price code S40

Principles of Health Economics for Developing Countries

William Jack

1999. 305 pages. ISBN 0-8213-4571-0. Stock No. 14571. Price Code S30

Resetting Price Controls for Privatized Utilities: A Manual for Regulators

Richard Green and Martin Rodriguez Pardina

1999. 116 pages. ISBN 0-8213-4338-6. Stock No. 14338. Price code S35

Social Funds and Reaching the Poor: Experiences and Future Directions

Anthony G. Bigio, editor

1998. 258 pages. ISBN 0-8213-4209-6. Stock No. 14209. Price code S25

Working Together for a Change: Government, Business, and Civic Partnerships for Poverty Reduction in Latin America and the Caribbean

Ariel Fiszbein and Pamela Lowden

1999. 176 pages. ISBN 0-8213-4339-4. Stock No. 14339. Price code S25

The complete list of Institute publications is available in the

WBI Publications Catalog 2000. Stock No. 31708

Order World Bank Institute publications

by phone or fax: Phone: 1-800-645-7247 or (703) 661-1580; Fax: (703) 661-1501

by mail: Write to The World Bank, P.O. Box 960, Herndon, VA 20172-0960, U.S.A.

by e-mail: books@worldbank.org

through the World Wide Web at: <http://www.worldbank.org/publications>

or visit the WBI website at: <http://www.worldbank.org/wbi>

Labor Market and Social Insurance Policy in India: A Case of Losing on Both Competitiveness and Caring

Ramgopal Agarwala and Zafar Dad Khan

Abstract

Social development in India over the last 50 years has suffered from three fatal flaws in the Nehruvian vision that set the tone for policies in this period. These were: (i) reliance on the Soviet model of heavy industry-oriented and inward-looking development policy; (ii) adoption of the Anglo-American concept of “the welfare state”; and (iii) the Indian/colonial feudal tradition of creating and maintaining distance between the ruling elite and the public. The first flaw led to a low-growth economy while the second resulted in ambitious welfare objectives beyond the state’s capacity for implementation. The third encouraged hypocrisy on the part of the ruling class and cynicism on the part of the masses. Taken together, these tendencies rendered the Indian economy noncompetitive and society “non-caring”.

Copyright © 2001
The International Bank for Reconstruction
and Development/The World Bank
1818 H Street, N.W.
Washington, D.C. 20433, U.S.A.

First Printing January 2001

The World Bank enjoys copyright under protocol 2 of the Universal Copyright Convention. This material may nonetheless be copied for research, educational, or scholarly purposes only in the member countries of The World Bank. Material in this series is subject to revision. The findings, interpretations, and conclusions expressed in this document are entirely those of the author(s) and should not be attributed in any manner to the World Bank, to its affiliated organizations, or the members of its Board of Executive Directors or the countries they represent.

**Labor Market and Social Insurance Policy in India:
A Case of Losing on Both Competitiveness and Caring**

Ramgopal Agarwala and Zafar Dad Khan

2001. 26 pages. Stock No. 37168

Contents

Foreword	v
Background	1
Labor Market Policies in the Organized Sector	2
Social Insurance Policy	7
The Unorganized Sector: Tokenism through Legislation and Public Expenditure	11
Summing Up: Losing on Both Competitiveness and Caring	15
Lessons of East Asia Experience	16
References	18

Foreword

This paper, entitled *Labor Market and Social Insurance Policy in India: A Case of Losing on Both Competitiveness and Caring* by Dr. Ramgopal Agarwala and Mr. Zafar Dad Khan of India Habitat Center for developing Countries, was prepared for a project on Social Development in East Asia. The project was organized by the World Bank Institute under the auspices of the Program for the Study of the Japanese Development Management Experience which is financed by the Human Resources Development Trust Fund established at the World Bank by the Government of Japan.

The principal objectives of this Program are to conduct studies on the Japanese and East Asian development management experience and to disseminate the lessons of this experience to developing and transition economies. Typically, the experiences of other countries are also covered in order to ensure that these lessons are placed in the proper context. This comparative method helps identify factors that influence the effectiveness of specific institutional mechanisms, governance structures, and policy reforms in different contexts. A related and equally important objective of the Program is to promote the exchange of ideas among Japanese and non-Japanese scholars, technical experts and policy makers.

The outputs of the project on Social Development in Asia include seven papers on topics such as pension systems, health insurance, education, and employment policies which are scheduled to be published in the WBI Working Paper series. In addition, a set of papers focusing on the social policy experience of Japan over the past fifty years is being processed separately as a book-length manuscript.

Farrukh Iqbal, Program Director
World Bank Institute

Labor Market and Social Insurance Policy in India: A Case of Losing on Both Competitiveness and Caring

Ramgopal Agarwala* and Zafar Dad Khan*

Background

For much of the 50 years since India's independence, the Nehruvian vision set the tone of government policies for economic and social development. This vision combined, among other things, three elements:

- (a) A fascination with the Soviet model of heavy industry-oriented and inward-looking development.
- (b) An adoption of the British Labor Party approach of strong trade unionism combined with the welfare state concept as developed by, among others, William Beveridge.
- (c) The British-Indian colonial tradition, which thrived on creating a distance between the ruling elite and the masses, and in which the elite condescended to the people more than it cared for them.

The Nehruvian fascination with the Soviet model went back to the 1930s, when the Soviet Union introduced Five-Year Plans, and was starting a program of industrialization without much emphasis on export orientation. The success of the Soviet Union in building up a heavy industrial sector, which helped it to fight Nazi Germany, was a source of inspiration to many Indian political leaders, Nehru in particular. After independence, India introduced a system of Five-Year Plans and the basic framework of the Soviet approach was incorporated in the Second Five-Year Plan, which was based on the famous Mahalanobis model. This model tried to demonstrate that a high allocation to heavy industries would contribute to a high rate of investment and thus a high rate of growth over the long-term. The logic of the model was dramatized in the statement: "You cannot eat steel." The model was fatally flawed: it ignored the fact that "steel produced" is not necessarily "steel invested" and in the absence of domestic saving, investment may not be forthcoming, leading to under-utilization of the steel mills. Low employment generation was another weak point of the model. Mahalanobis tried to provide for employment generation in his strategy by supporting small industries through artificial constraints on the production of larger industries. It was, however, not clear whether there would be demand for the products of such small industries, even with controls on competing industries. Thus, by ignoring the demand side of the equation, the production-oriented Mahalanobis model was tailor-made for creating excess capacity and low growth in the system.

Poor performance on the growth side was combined with the welfare state rhetoric of protecting labor from exploitation by businesspeople through state action and providing the social needs of the masses with the help of the state. It was ignored that what might have been possible for Great Britain and other developed economies in the 1940s and 1950s was not necessarily possible for such an underdeveloped economy as India's. The welfare state mentality was combined with a strong tradition of trade unionism that highlighted the conflict of interest between labor and management rather than their partnership, and thus worked against productivity.

These economic problems were further compounded by the continuation of the colonial tradition of administration that was carried over to economic matters. The basic economic administration of India was developed on the tradition of the Indian Civil Service of the British era that was perhaps more British than Indian, more imperial than civil, and more domination-oriented than service-oriented. In this tradition, a small elite minority was expected to get all the privileges of power and economic and social benefits and the

* Dr. Ramgopal Agarwala, Senior Adviser, and Mr. Zafar Dad Khan, Research Assistant, Research and Information System for the Non-Aligned and Other Developing Countries. This report was prepared for the workshop on "Social Development Policy in East Asian Development" organized by Economic Development Institute of the World Bank in San Francisco, July 28-30, 1997. The views expressed are those of the authors and not necessarily shared by the institutions with which they are affiliated.

masses were to be kept happy with rhetorical statements rather than real provision of social services. The system was geared to an almost deliberate creation of distance between the elite and the masses. This tendency was perhaps accentuated, rather than attenuated since independence. With greater use of English in training and acquisition of Western goods and services, the elite created an even greater distance between themselves and the masses than what prevailed at the time of independence. So, while the lofty principles of the political and economic establishment led them to put in place a large body of socially oriented legislation, implementation was never part of the scheme. The distance between noble principles and ignoble practices grew even wider in India since independence, leading to hypocrisy on the part of the powerful and cynicism on the part of the masses.

It is in such an economic, social, and political environment that we need to place the history of labor relations and social insurance policies in India. Not surprisingly, economic mistakes and political hypocrisy led to an economic system that was not competitive and a society that was anything but caring.

Three Segments of the Labor Market

The issues of labor market and social insurance policies in India are different for the three different segments of the work force. At the top are the elite white-collar workers consisting of the senior public sector officials and the managerial class in the private sector. While exact numbers for this group are not available, they would probably account for no more than 1 percent of the labor force—in other words, roughly 3 million workers. At the other end is the unorganized sector including the self-employed, informal sector workers, and casual laborers accounting for 92 percent of the labor force—about 300 million workers. In the middle are the regular wage employees in the public sector and in the organized private sector, who account for about 7 percent of the labor force—about 22 million people.

For the first category, job security and social security provisions are part of their work contracts. In general, their job security is “Iron Clad.” Under the terms of service, their wage benefits are in line with their elite status, with a considerable proportion of their compensation paid in terms of real goods and services including housing and other benefits. For medical care, public sector employees have free treatment in government hospitals and get reimbursement for the cost of treatment and drugs. Medical leave and maternity leave are on full pay and relatively generous provisions are made for employment injury, invalidity benefits, old age benefits, and survivor benefits. In the era of liberalization and increasing globalization, this elite group is increasingly availing itself of the compensation packages that are closer to the ones found in international markets. For this group, the issue of caring is not particularly important. They generally take good care of themselves under the prevailing conditions of the elite ruling class.

At the other extreme are the workers in the “Informal Sector,” for which only minimal social security provisions have been made. The main areas of state activity are minimum wage legislation and various promotional measures for employment generation. As discussed below, this sector has been largely outside the purview of social action by the government. To improve the conditions of labor in this sector state activism is unlikely to be effective in view of implementation problems. Some other approaches for social action are called for.

The bulk of government legislation for labor market and social insurance concerns the middle group and it is on this group that the following discussion is focused.

Labor Market Policies in the Organized Sector

Labor relations in India’s organized sector have gone through three distinct phases:

- (a) The colonial era (before 1947).
- (b) The planning era (1951–90).
- (c) The liberalization era (1991 to date).

During the colonial period, government policy in industrial relations was one of laissez faire and selective intervention in specific cases. The Bombay Mills Labor Association was formed in 1890. The association did not organize workers as trade unions but was meant to petition the government on behalf of the workers. Gandhiji founded his Textile Labor Association in Ahmedabad in 1917 and was active in trying to obtain fair settlements of disputes between labor and management. The formation of the International Labour Organisation (ILO) in 1919 gave a further fillip to the establishment of an all-India organization for labor and in 1920, an All India Trade Union Congress was formed with Lala Lajpat Rai as its first President. During the years that followed, a number of labor-related acts were initiated—for example, the Trade Union Disputes Act of 1929, the Government of India Act of 1935, and the Bombay Trade Disputes Act of 1934. However, labor actions were localized and the emphasis was on adjudication and settlement of disputes rather than promotion of sound labor management relations or collective bargaining.

The post-independence period saw a rapid escalation of trade unions. The general mood of labor was one of militancy, geared to extracting a larger share of the value added in the industry, under the overall political perception of the private sector as profiteers bent on exploiting the labor. Soon the process of organizing labor got aligned with political parties, and the Indian National Trade Union Congress (INTUC) linked the Congress Party, the All India Trade Union Congress (AITUC), and Centre for Indian Trade Unions (CITU) with the Communist movement. Over the years, industrial relations got politicized, with political parties openly seeking the support of unions on the eve of elections.

The climax of politicization was reached during 1982–83 when a labor leader, bent on satisfying his own ego, was able to continue a prolonged strike of the Bombay textile workers, leading to the loss of more than 4 million work days. As disenchantment with labor unions grew over time, this became the turning point for reduced public support for trade union activities and increasing employer militancy. From 1985 onwards, under the New Economic Policy initiated by Prime Minister Rajiv Gandhi, there was a tendency toward increasing employer clout and reducing support for strikes and other trade union activities.

During the 1980s, India had the dubious distinction of ranking first among developing countries in terms of work days lost per 1,000 nonagricultural employees. As noted in table 1, during the period 1980–86, India lost nearly 1,900 work days per 1,000 nonagricultural employees, even after excluding the work days lost because of the Bombay textile strike of 1982–83. This was nearly three times the number of work days lost in countries that ranked second and third (namely, Sri Lanka and Peru), where the loss was between 600 to 700 work days per 1,000 workers.

Within this overall picture, characterized by large losses of work days owing to industrial disputes, there was a change, over time, in the relative contribution of labor strikes and employer lockouts. In the 1960s, the strikes accounted for about 70 percent of work days lost, but in the late 1980s about 60 percent was attributable to lockouts.

One way or the other, the history of labor relations in India since independence has been characterized by mutual distrust between labor and management, leading to loss of productivity and competitiveness. Unfortunately, the situation has not improved with the initiation of economic reforms in the 1990s. In fact structural adjustments introduced since 1991 are seen by unionists as the greatest threat to unions in the coming years. It is widely believed that the reforms are strengthening the hands of the private sector and foreign investors and weakening the position of laborers. It is expected that a large share of new industrial employment will be of a flexible type that is nonpermanent, contract-based, and part-time. This will increasingly reduce the scope for trade union activities. It is unfortunate that reforms that could have been an instrument for increasing economic growth and thus increasing employment and wages over the long term are widely perceived as antilabor. Labor market rigidities with regard to wages, employment, and redeployment are continuing, thus frustrating the objectives of reforms in trade, finance, and industry. What could have been an instrument for increasing the competitiveness of the Indian economy is proving both divisive and unproductive.

Pushing Wages beyond Productivity

The increasing role of the state sector and conflict-oriented labor-management policies have combined to create wage market rigidities that are inimical both for competitiveness and for equity in the system. The

typical wage system in India has three components: the basic wage, cost-of-living adjustments (dearness allowance), and bonuses. In actual practice, however, wage determination has become dominated by wage awards in the public sector and various legislation on labor. The name “bonus” has lost its meaning in the sense that bonuses are not linked to the profitability of the enterprises but are part of a rigid wage formula.

During the politicization phase of the labor market, organized sector labor managed to achieve significant growth in real wages, much ahead of the growth of per capita income in the economy. As noted in table 2, from 1982–83 to 1988–89, the growth of real wages in public corporations was 6.46 percent per year. This was in striking contrast with the growth rate of real wages in smaller industrial enterprises (with 10 to 99 workers), which barely experienced 1 percent growth in real wages. Thus while the rhetoric was for reducing income disparity and giving greater increases to income in the lower income group, the reality was just the opposite. Large industries managed to absorb these higher wages, because the markets were protected from world competition through trade restrictions and the firms could pass on the higher costs to consumers.

Table 1. *Strike Experience of Developing Countries (1980–86)*

<i>Continent/Country</i>	<i>Work days lost per 1000 nonagricultural employees</i>	<i>Rank</i>
<i>Asia</i>		
Cyprus	148.1	8
Hong Kong	4.5	17
India	1894.1 ^a	1
Israel	698.6	2
Korea, Republic of	3.7	18
Malaysia	5.1	16
Pakistan	37.3	13
Philippines	170.3	7
Sri Lanka	634.1	4
Thailand	12.3	15
<i>Africa</i>		
Kenya	35.9	14
Mauritius	86.7	11
Zambia	325.3	5
<i>Latin America</i>		
Costa Rica	316.4	6
Chile	73.9	12
Mexico	97.4	10
Peru	671.8	3
Puerto Rico	138.6	9

a. Figure excluding work days lost owing to Bombay Textile Strike during 1982–1983 is 1545.3.

Note: Data for Pakistan relate to 1980–85, for Kenya 1981–85, for Mexico 1982–86, and for other countries, 1980–86. Nonagricultural employees cover employees in all divisions of economic activity except those in agriculture, hunting, forestry, and fishing.

Comparable data for some developed countries are as follows: Italy 608; New Zealand 652.3; United Kingdom 401.5; United States 140.5; Australia (1984–86) 246.6; France 79.3; and Austria 2.4.

Source: *Yearbook of Labor Statistics*, ILO, Geneva, issues for various years.

Table 2. *Growth of Real Wages in Industry*

	Increase in employees' annual wages (percent)	
	1974-75 to 1981-82	1982-83 to 1988-89
Industrial enterprises with 10-99 workers	3.59	1.07
Industrial enterprises with 100 or more workers	2.61	4.44
Public Ltd. companies	2.75	3.29
Public corporations	2.88	6.46

Source: Sen and Ghosh. 1993.

Table 3. *Employment Elasticity in India*

	1972-73 to 1977-78	1977-78 to 1983	1983 to 1987-88
All sectors	0.61	0.55	0.38

Source: Papola (1992), p.309, table 2.

Table 4. *Employment Growth Rate in the Public and Organized Private Sectors (percent per year)*

Activity	Public sector	Private sector
	1980-81 to 1990-91	1980-81 to 1990-91
Agriculture and allied sectors	2.3	0.7
Mining and quarrying	1.4	-3.2
Manufacturing	1.8	-0.5
Electricity, gas, and water supply	3.1	1
Construction	0.4	-0.4
Trade, hotels, and restaurants	3.3	0.8
Transportation, storage, and communications	0.9	-1.7
Finance, real estate, and related sectors	4.1	2.2
Community, social, and personal services	2.1	1.9
Total	1.9	0.2

Note: Since the sectoral classification changed in 1975 the figures for early 1970s have been eliminated while computing the growth rates of those sectors in which changes have been significant.

Source: Government of India, *Economic Survey* (various years).

Preventing Labor Mobility and Wasting Assets

The growth of employment in the public sector was in part explained by the policy adopted by the government to achieve employment security. The present framework to deal with this problem of employment security is provided by the Industrial Disputes Act of 1947, the Companies Act of 1956, and the Sick Industries Companies Act (SICA) of 1985. (Before July 1991, there was no framework to deal with sickness in the public sector. After July 1991, the scope of the SICA was widened to include public sector units.) In India, along with barriers to entry, exit barriers exist in legal, administrative, regulatory, and other areas. The 1976 amendment

to India's ID Act (1947) makes layoff (Section 25 M), retrenchment (Section 25N), and closure (Section 25O) illegal except with prior permission of the government. The permission requirements cover all industrial establishments employing 100 or more workers. The penalty for layoff, retrenchment, or closure without government permission includes both a prison sentence and a fine for the employer. If an employer closes down a unit even after refusal by the government, he or she can be imprisoned for up to one year or fined up to Rs. 5,000 or both. The legislation does make an exception for retrenchment resulting from a power shortage or natural disaster.

However, whether there is an exit policy or not, the industry has always tackled the problem in its own way, by engineering an exit. If a company becomes sick, there is not even money to pay the electricity bills, so the power is shut off. Thus, Section 25 O of the ID Act 1947 is circumvented, and the fine imposed for this violation is a paltry sum of Rs. 500 (as determined by the Gujarat High Court in 1995). When a unit is closed in this manner, workers do not get their statutory dues, such as provident fund, gratuity, current salary, leave salary, and so on. This is precisely what happened to the 50,000 workers of Ahmedabad's textile industry, which was closed down because electricity was cut off for nonpayment, even though the government had not given permission to close the mills.

In short, firm exit and labor termination takes place in spite of the various provisions of the Industrial Disputes Act of 1947. The complete process of a firm's exit—closure, windup, and liquidation—can take 10–15 years, and it defeats the very purpose of the exit, which is reentry. During these interim years, the productive assets of the firm remain in disuse and there are no returns from the investments already made. Such a long lapse between closure and liquidation reduces the salvage value of the firm to a negligible amount. The workers are largely without a permanent, regular job and income. They are forced to work in the unorganized sector, which is an inadequate and irregular source of income. The two most important claimants to the assets of the firm—its workers and the secured creditors—rarely get even a small fraction of their outstanding dues. During this period there is no social security or other assistance for workers that would enable them to take care of their rudimentary needs. Thus, the present exit is worse than a zero-sum game; society, the government, financial institutions, banks, industrialists, and workers all lose.

In the wake of 1991's liberalization program, the Government of India set up a National Renewal Fund (NRF) to assist the restructuring and redeployment of labor.

The NRF has two components:

- (a) The National Renewal Grant Fund (NRGF); and
- (b) The Employment Generation Fund (EGF).

NRGF is meant to deal with the immediate requirements for labor in sick units and is therefore to be used for providing (a) retraining and redeployment of workers retrenched as a consequence of the process of restructuring, organizational and technological modernization, and also for counseling and placement services for employment to affected workers; (b) compensation payments to employees who have lost their jobs because of the rationalization on closure of industrial enterprises recommended by the Board of Industrial and Financial Restructuring (BIFR) to affected employees in public sector undertakings (PSUs) not necessarily under the BIFR orders, and to affected employees of closed units sponsored by State governments; and (c) interest subsidies to enable financial institutions to give soft loans to weak units for funding labor rationalization resulting from industrial restructuring.

Compensation payments are made to workers dislodged from their jobs as a result of the BIFR's decision to close down an undertaking. These payments include the amount due under the voluntary retirement scheme (VRS) as well as employees' legal dues. The latter form a claim on the assets of the unit that has closed down and are recoverable from the sale of these assets. Finally, compensation payments can also be made to workers affected by the closure of a unit that is in liquidation, provided that a State Government recommends the case.

Resources from EGF are available as grants for approved employment generation schemes in the organized as well as the unorganized sectors. These schemes are meant to generate employment opportunities, basically in areas in which industrial restructuring leads to job losses for a large number of people.

During 1992–93 about Rs. 1,950 crores were allotted to the NRF, of which Rs. 200 crores was the budgetary outlay (in the budget of the fiscal year 1992–93), Rs. 1,000 crores were from PSU disinvestment, Rs. 650 crores were from IBRD, and Rs. 100 crores from bilateral aid. Of this, Rs. 1,175 crores were

allotted to NRGF and Rs. 775 crores to EGF. The actual expenditure in the budget period, however, was Rs. 736.06 crores, which was on VR payments to a central government department (Rs. 148.75 crores) and to central PSUs (Rs. 387.31 crores). Though Rs. 150 cr. was allocated for Ahmedabad Textile Mills in the private sector and another Rs. 150 cr. for other private sector units referred to the BIFR, not much progress was achieved on this front. The budgetary allocation for the NRF for the period 1993–94 was Rs. 1,020 crores (which included the additional amount of Rs. 320 crores approved in the supplementary budget of December 1993), and Rs. 750 crores for 1994–95. About 90 percent of this amount was meant for VR payments to the workers for Central and State PSUs. It is clear that the VRS is the most important component of the NRF and the VR payments are largely meant for PSU workers—especially central PSU workers. The generous payments amount to Rs. 1.31 lakhs per worker which is in addition to their PF (pension funds).

The NRF has so far basically financed voluntary retirement schemes (VRS) in central PSUs that account for less than 9 percent of total redundant labor. Until July 1995, just over 78,000 employees—20 percent of all redundant employees in the central PSUs, or less than 2 percent of all potentially redundant employees in the organized sector—had accepted retirement under the schemes.

Counseling, retraining, and redeployment activities still remain distant dreams. For implementing these programs, a few Employee Resource Centres (ERC) have so far been set up. Prior to the end of July 1995, the coverage of ERC activities was, however, extremely disappointing as shown by the following figures:

Number of workers surveyed:	12,437
Number of workers counseled:	7,421
Number of workers retrained:	1,475
Number of workers redeployed:	234

In general, owing to ineptitude in handling the problems of industrial sickness, many nonviable enterprises were kept going through government subsidies. Rough estimates of labor redundancies in 1991 suggest that in the organized sector 4.4 million employees were redundant, which was about 16.5 percent of all employees. Of these, 3.4 million were in the public sector and the rest in the private sector. These redundancies should be seen in the context of the low pace of job creation. Between 1983–84 and 1990–91, about 0.38 million jobs were created annually in the organized sector, which suggests that even the stock of redundant labor will not to be reemployed in 10 years leaving aside the issue of additional labor entrants in the organized sector.

Market Response by “Casualization of Labor”

One important consequence of the rigidities in the organized sector with regard to wage and employment policy has been the growth of contract labor services. In many areas, organized private sector is turning to enterprises that provide services on a contract basis. The implications of this “casualization of labor” need to be studied carefully. On the one hand, these laborers do not obtain the benefits of job security, health security, pension, workplace injury, and so on. On the other hand, this sector has flexibility and dynamism. Its rapid growth is itself evidence of the market process working toward the greater role of this sector. In some ways, this can be compared with the growth of subcontracting to larger enterprises in the Japanese context. It would be useful to see how this dynamic contract service sector can be brought within the purview of formalization to give some minimum protection to labor while retaining its flexibility.

Social Insurance Policy

On paper, India has an extensive system of social security laws (table 5). As noted in the table, social security laws provide for pensions, workers’ injury, health care survivor, and other benefits.

Table 5. *India's Principal Social Security Laws*

<i>Laws</i>	<i>Objectives</i>	<i>Coverage</i>	<i>Eligibility</i>	<i>Benefits</i>	
Workmen's Compensation Act, 1923	To provide compensation for workers in cases of industrial accidents and occupational diseases resulting in disablement or death.	Persons employed in factories, mines, plantations, the railways, and others mentioned in schedule II of the Act.	The benefits are payable for work-related injuries to workers or dependents not covered by the ESI Act.	Compensation for: Death: Permanent, total disablement: Temporary disablement:	Min.—Max. (rupees) 50,000—228,000 60,000—274,000 Fifty percent of wages for a maximum period of five years
Employee's State Insurance Act, 1948	To provide health care and cash benefits in cases of sickness, maternity, and employment injury.	Factories / establishments to which the law is made applicable by the Government.	Employees drawing wages not exceeding Rs. 3,000/- per month.	Compensation for: Death / Permanent, total disablement: Temporary disablement:	Seventy percent of the wage payable as monthly pension. Seventy percent of the wage payable for disability period.
Employees' Provident Funds and Miscellaneous Provisions Act, 1952	To provide for (a) Compulsory Provident Fund; (b) Pension; and (c) Deposit Linked Insurance.	Factories or establishments employing 20 or more employees (in scheduled industries); other establishments notified by the Central Government	Employees drawing pay not exceeding Rs. 5,000/- per month.	Provident fund: at the rate of 8.33 percent or 10 percent, whichever is applicable. Apart from terminal disbursement nonrefundable withdrawals for: *Life insurance policies; *House building, and so on.	
Maternity Benefit Act, 1961	To provide for maternity protection before and after childbirth.	Factories, mines, plantations, commercial and other establishments to which the law is extended.	There is no wage limit for coverage provided the woman is not covered by the ESI Act.	Payment for actual absence up to 12 weeks' average daily wages, minimum wage or Rs. 10.	
Payment of Gratuity Act, 1972	To provide for payment of gratuity on ceasing to hold office.	Factories, mines, oil fields, plantations, railways, companies, shops, and other establishments to which the law is extended.	Five years continuous service is required for payment of gratuity.	Fifteen days' wages for every completed year of service or part thereof in excess of six months, subject to a maximum of Rs. 100,000/- . The seasonal employees are entitled to gratuity at a rate of seven days' wages for each season.	

Legislating Health Service Provisions beyond Supply Capacity

The most important step in the field of health security for workers was taken in 1948 when the Employees' State Insurance (ESI) Act was passed. The ESI Act provides for health care and cash payment in cases of sickness, maternity, and employment injury. The Act was based on a scheme prepared by Adarkar in 1944, applicable to all factories employing 20 or more wage-earning individuals. Workers whose wages are below a particular ceiling (Rupees 3,000/- only) are eligible to participate in the scheme. The ESI Scheme (ESIS) is administered by a statutory body called the Employees State Insurance Corporation (ESIC), which has members representing employers, employees, the central government, state governments, the medical profession, and Parliament. The Union Minister for Labour is Chairman of the ESIC. A Standing Committee constituted from among the members of the Corporation acts as the executive body for administration of the scheme and is chaired by the Secretary to the Government of India in the Ministry of Labour. There is a provision for setting up regional boards and local committees at the grass roots level.

The ESI scheme is mainly financed by contributions from employees and employers. The employers' contribution is equal to 4 percent of the wage payable to the employee. The employees' contribution is 1.5 percent of wages. The state governments' share of the expenditure on medical care is up to 12.5 percent of other contributions. The corporation has prescribed a ceiling on the sharable expenditure on medical care. In order to improve medical care under ESIS, expenditure on medical care has been enhanced from Rs. 345 to 410 per insured person with effect from April 1, 1994. All capital expenditure on construction of the ESI buildings, including maintenance, is borne by the corporation. The surpluses of the corporation, which amounted to Rs. 2,683 crores in March 1996, are invested in the special deposit account of the Government of India and are credited with an interest rate of 12 percent.

Despite extensive provision for health security, the ESIS has failed to reach its goals. Among the shortcomings of the ESIS are the following:

- (a) The scheme is applicable only to employees whose income (including dearness allowance) is lower than a prescribed ceiling—which is currently Rs. 3,000. With the high rate of inflation, many workers lose coverage under this scheme.
- (b) The ESIS leaves out, even within the organized sector, all establishments falling outside the factory. Consequently it does not provide health security to the large number of workers engaged in the informal sector.
- (c) The quality of services offered by the ESIS is abysmally poor. This is evident from the low occupancy rates of its hospital. Negligence on the part of the doctors, lack of safety in hospital buildings, and lack of essential equipment are the most common complaints.
- (d) There is a dichotomy of responsibility between the state government and the ESIC, which has caused the quality of services to decline, leading to dissatisfaction on the part of the insured person. The ESIS, despite being a scheme that is geared exclusively to the industrial workers and their families, totally ignores occupational health.
- (e) Sickness benefit provided under the scheme has been the subject of considerable fraud. The compensation claim on the basis of fake medical certificates are rampant.
- (f) The ESIC review committee observed in 1982 that while most of the claims for temporary disablement were settled promptly, those relating to the more crucial permanent disablement and dependence funds were kept open for a long time.

Outside the organized sector, the provision of health services by the government is largely through the public health system financed from public revenues. In principle, public hospitals provide free or low-cost medical care to all. But in practice most hospitals are concentrated in urban areas and the quality of service provided is extremely poor.

On the whole, India spends 6 percent of its gross domestic product (GDP) on health services, which is high by international standards. But key health indicators remain low when compared to some other Asian countries such as Sri Lanka and China. A comparison of India and China would perhaps reveal dramatically the poor performance of India. Life expectancy in India is 59 years compared with the Chinese figure of 69

years. Infant modality rate in India is 79 per 1,000 live births in comparison with China's 31. Sanitation and drinking water facilities are much poorer in India as compared with not only China but also many other developing countries.

Old-Age Security: Moving from an Inadequate to an Unsustainable System

The earliest legislation for old-age security in India was the Employees Provident Fund (EPF) Act of 1952. The EPF Act initially applied to factories and establishments falling within specified industries that had been in existence for three years and employed 50 or more workers. The Act is now applicable to factories and establishments that are engaged in 177 industries employing 20 or more workers, and that have been functioning for a period of three years from the date of establishment. The wage ceiling for coverage under the EPF Scheme (EPFS) has been enhanced from Rs. 3,500 to Rs. 5,000 per month, with effect from October 1, 1994. The EPFS is administered by the Central Board of Trustees. The Central Board consists of a Chairman, a Vice Chairman, representatives of the Central Government, the State Governments, and employers' and employees' organizations appointed by the central government. The EPFS is operated on a defined contribution basis, with benefits equaling total contributions from employees and employers, plus accrued interest.

To provide long-term financial security to the families of industrial employees in the event of premature death, the subscribers of EPF are compulsorily included in the Employees Family Pension Scheme, which was initiated on March 1, 1971. This is done by diverting a portion of employers' and employees' contribution to the EPFS.

The Employees Deposit Linked Insurance Scheme came into force with effect from August 1, 1976. All employees who are members of the Provident Fund are members of this scheme also. The qualifying condition for this is membership in a provident fund scheme having at least an average balance of Rs. 500 in provident funds. While employees are not required to contribute to the insurance fund, employers are required to contribute 0.5 percent of the employees' wages.

Old-age security provision underwent a significant change in 1995 when the Employees Pension Scheme was introduced. The EPS is compulsory for all workers who were members of the family pension scheme, initiated in 1971. It is also compulsory for individuals who became members of the provident fund on or after November 16, 1995. Provident fund subscribers who were not members of the family pension scheme had the option to join this pension scheme.

A minimum of 10 years of contributory service is required for entitlement to pension under the new scheme. Normally superannuation pension is payable on attaining the age of 58. Pension on a discounted rate is also payable on reaching 50. When pensionable service is less than 10 years, the member has the option to remain covered for pension benefits until he or she reaches 58 or claim the contribution's return with interest. The scheme provides for payment of monthly pension in the following contingencies: superannuation on attaining 58 years of age, retirement, death during service, permanent and total disablement, death after retirement, children's pension, and orphan pension. In a departure from the provident fund approach of defined contribution, the new pension scheme is of a defined-benefit type. The formula for calculating the monthly pension is as follows:

$$Pension = \frac{\text{pensionable salary} \times (\text{pensionable years of service} + 2)}{70}$$

Thus for a member with 33 years of service, the pension is 50 percent of the pensionable salary, which is defined as the average of one's last 12 months' pay. Under the scheme, neither the employer nor the employee is required to make any additional contribution after November 1995. The employers' share of the provident contribution, representing 8.33 percent of the employee's wage, is diverted to the pension scheme.

Accumulations in the family pension fund constitute the corpus of the pension scheme. The central government also contributes to the pension scheme in the amount of 1.16 percent of an employee's wage.

In addition to monthly pension, the Payment of Gratuity Act of 1972 provides for a lump-sum payment made to workers on termination of service owing to retirement, retrenchment, invalidity, or death. The wage ceiling for coverage under the Act has been removed and all employees including those employed in managerial and supervisory capacities are legally entitled to gratuity under the Act. The ceiling on the maximum amount of gratuity has also been enhanced from Rs. 50,000 to Rs. 400,000.

Provident fund contributions are invested according to the pattern prescribed by the Central Government from time to time. As of March 1995, the total invested amount was 45,915 crores. Government of India, on the recommendation of the Central Board of Trustees, has approved the crediting of interest at 12 percent into the members' accounts on monthly balances. Arrangements have been made, after consultation with the Ministry of Finance, to get the investment handled by the State Bank of India.

While the coverage and benefits available under the EPF are reasonable, its functioning has been unsatisfactory on several grounds. There are large arrears due from employers, accounting practices are poor, the rates of return on investment are relatively low, and there are often delays in the disbursement of benefits. Furthermore, actual retirement benefits available to workers often turn out to be meager owing to withdrawals during the employees' working span for such purposes as housing, medical treatment, and higher education. The payment of gratuity is an employer liability and it often tends to be evaded, especially by establishments in financial distress facing closure.

The new pension scheme with defined benefits seems to be a retrograde step in terms of its financial viability. It recently introduced a Pay As you Go (PAYG) system, which has been found in many countries to be a financial time bomb in the context of a population that is maturing. It will be useful to see what considerations led to the introduction of this scheme and whether it has been put to the test of actuarial soundness.

The Unorganized Sector: Tokenism through Legislation and Public Expenditure

The unorganized sector has been mostly out of the ken of government legislation. Should government try to extend its responsibility to the unorganized sector or leave it to market forces?

The Minimum Wage Act

Over the years, the government has tried to enforce minimum wage legislation but has had little success. The minimum wages fixed by the government, under the Minimum Wages Act of 1948, are presented in table 7. It is not clear why the statutory minimum wages in agriculture should be fixed more than 50 percent higher than those in mines. It is unclear also how these minimum wages relate to poverty-level income or any other criteria.

The government has tried to set up a machinery for the enforcement of the Minimum Wages Act. In 1995, 11,977 inspections were apparently made, 5,291 prosecutions were launched, 4,476 convictions were obtained, and 2,104 claims were filed under the Act. However, a comparison of the actual wages with the statutory minimum wages shows that, in practice, these wages are not effectively enforced. More often than not, actual wages are below statutory wages.

Fortunately, market forces have made their contribution to increasing wages in the unorganized sector and over the period 1973–74 to 1990–91, the real wage rate in agriculture (a key indicator of wages in the unorganized sector) grew on a trend rate of 3.3 percent per year, which was roughly in line with the growth rate of per capita incomes in the country.

Special Employment Programs

For promoting employment and alleviating poverty in rural areas, the Indian government has initiated various special programs. These are employment generation programs, an employment assurance scheme, self-employment programs, programs to help the poor to acquire productive assets, and programs to give training to the unemployed. Table 8 gives a list of these programs and their specific objectives.

Over the years, these programs have generated a significant amount of employment (see table 9); but their cost-effectiveness has not been evaluated. The figures of employment generated are, naturally, not adequate indicators of the programs' contribution because they say nothing about the value generated by such employment. It is widely suspected that many of these programs have become instruments of distribution of largesse to favored groups and the degree of misuse of resources is probably quite high. It is not clear whether the "make work" approach underlying these programs is the best way of generating employment. The alternative of using these resources for accelerating growth in general may well have a greater and longer-lasting impact on employment generation and poverty alleviation.

Table 7. *Scheduled Employments for which Central Government Has Fixed Minimum Wages under the Minimum Wages Act of 1949*

<i>Area of Employment</i>	<i>Minimum wage^a to the lowest-paid worker</i>
Agriculture	Rs. 56.09
Construction or maintenance of roads or building operations	Rs. 34.96
Stone breaking or stone crushing	Rs. 34.96
Maintenance of buildings	Rs. 34.96
Construction and maintenance of runways	Rs. 34.96
Various types of mines	Rs. 34.96
Loading, unloading in railways' goods shed	Rs. 36.10
Ash pit cleaning in railways	Rs. 36.10

a. Minimum wages also include a component of the Special Allowance, which was last revised on October 1, 1996.

Source: Wage Cell, Ministry of Labor, Government of India.

Table 8. *Special Employment Programs*

<i>Program name and the time of launch</i>	<i>Specific objective and remarks</i>
1. Rural Works Program (RWP)(1970–71)	An employment-oriented program to create permanent civil works (soil conservation, road construction, afforestation, and so on); to mitigate scarcity conditions; and to promote integrated development in drought-affected areas.
2. Crash Scheme for Rural Employment (CSRE)(1971)	To take up projects of durable nature such as minor irrigation, soil conservation, afforestation, land reclamation, anti-water-logging to alleviate unemployment and underemployment in rural areas.

(Table continues on the following page.)

3. Small Farmers Development Agency (SFDA)(1971) and Marginal Farmers and Agricultural Laborers Scheme (MFALS)(1971)	To make credit available to farmers of various capacity and agricultural laborers to enable them to use the latest technology, practice intensive agriculture, multiple cropping, and to take up subsidiary activities such as dairying, poultry, fishing, and horticulture. MFALS emphasized employment generation and improvement of examining capacity of landless agricultural laborers. In 1974 the two were merged into an expanded SFDA, which in turn was merged with IRDP in 1980.
4. Maharashtra Employment Guarantee Scheme (MEGS)(1972–73)	To provide gainful, productive, unskilled, manual, adult employment at a minimum living wage in rural areas through labor-intensive and durable-assets-producing activities. A unique state-level scheme that tried to offer work to everyone and give practical expression to the “right to work.”
5. Agro-Service Centres (ASS)(early 1970s)	To provide assistance for self-employment to the unemployed graduates and diploma holders by enabling them to set up workshops, and repairing and hiring facilities.
6. Drought-Prone Area Program (DPAP)(1973)	All of these are Area Development Programs (ADPs); DPAP was a redesigned RWP. Their aims: to deploy adequate infrastructure, to bring about integrated area development, to increase productivity and employment opportunities, to control the process of desertification, to mitigate the effects of drought, to restore ecological balance to raise productivity of land, water, livestock, and human resources in respective types of areas, to diversify agriculture, and to promote afforestation and pasture development.
7. Command Area Development Program(CADP)(1974–75)	
8. Hill Areas Development Program (HADP)(1974).	
9. Desert Development Program (DDP)(1977–78)	To generate additional gainful employment in rural areas to create durable community assets, to strengthen social and rural infrastructure, and to raise living standards. The wages were paid not in cash but in the form of foodgrains. from Government surplus stocks.
10. Food for Work Program (FFWP)(1977)	To provide technical skills and to upgrade traditional skills of rural youth (18 to 35 years old and from families living below the poverty line), and to enable them to take up self-employment in agriculture, industry, and services in rural areas.
11. Training for Rural Youth in Self-Employment (TRYSEM)(1979)	This is a restructured and renamed RWP. To provide gainful wage employment during periods of seasonal and sporadic unemployment, to assist liberated bonded labor, to secure minimum wages to agricultural workers, to play a supportive role in IRDP and ADPs, to create community assets, and to strengthen rural infrastructure.
12. National Rural Employment Program (NREP)(1980)	

(Table continues on the following page.)

13. Integrated Rural Development Program (IRDP)(1976–80) To promote self-employment and to raise the level of living of the poorest families in rural areas above the poverty line on a lasting basis by giving them income-generation assets and access to credit as well as other inputs. Toward this end, the program aimed at achieving integration of sectoral programs, spatial dimensions, social and economic process and policies.
14. Development of Women and Children in Rural Areas (DWCRA)(1982–83) A supportive program for IRDP. To increase the income of rural women and to provide them with child care facilities and other support services and financial assistance so that they could take up self-employment in viable economic activities, individually or in homogeneously organized groups.
15. Rural Landless Employment Guarantee Program (RLEGP)(1983) A program to supplement NREP. It aimed at guaranteeing employment to at least one member of landless households up to 100 days in a year, with a focus on women. Wage employment program in which a part of the wages was paid in the form of subsidized foodgrains.
16. Self-Employment Scheme for Educated Unemployed Youth (SEEUY)(1983–84) To provide self-employment to the educated unemployed youth in the age group of 18–35 years with a minimum qualification up to matriculation in industry, services and business.
17. Self-Employment Program for Urban Poor(SEPUP) (1986–87) To encourage families living below the poverty line in metropolitan, urban, semiurban areas to undertake self-employment by providing subsidy and credit. The share of Scheduled Castes/Scheduled Tribes (SC/ST) beneficiaries was to be 30 percent in terms of number and amount.
18. Jawahar Rozgar Yojna (JRY)(1989) A program launched by merging NREP and RLEGP; it has very similar objectives. It aimed at covering all villages, panchayats, and to create nearly 1 billion work days of employment per year, 30 percent of which is reserved for women.
19. Nehru Rozgar Yojana (NRY)(1989) with three components, namely: the Scheme for Urban Micro Enterprises (SUME); the Scheme of Urban Wage Employment (SUWE); and the Scheme for Housing and Shelter Upgradation (SHASU) While JRY is for rural areas, NRY is for training and upgrading the technical and commercial skills of urban underemployed and unemployed youth, providing infrastructure support, and promoting self-employment, with a focus or reservation for women and SC/ST youth. SUWE aims at providing wage employment to the urban poor through the creation of productive assets in the low-income neighborhoods in towns with a population below one lakh, at minimum wages for unskilled workers and at market wages for the skilled workers. SHASU aims at skills such as the upgrading of masons, carpenters, plumbers, sanitary workers, and so on; and at providing common infrastructure facilities to beneficiaries and machinery and equipment to training institutions, in towns with populations of 1 to 20 lakhs.
-

Table 9. *Employment Generation Under JRY*

<i>Year</i>	<i>Employment (in million work days)</i>
1989–90	864
1990–91	875
1991–92	809
1992–93	782
1993–94	1,023
1994–95 ^a	438

a. Up to November 1994.

Source: Ministry of Rural Development, Government of India, *Annual Report 1994–95*.

Table 9-A. *Families Assisted under IRDP (in lakhs)*

<i>Year</i>	<i>Number of families</i>
1980–81	27.27
1981–82	27.13
1982–83	34.55
1983–84	36.85
1984–85	39.82
1985–86	30.60
1986–87	37.47
1987–88	42.47
1988–89	37.72
1989–90	33.51
1990–91	28.98
1991–92	25.37
1992–93	20.69
1993–94	25.39
1994–95 ^a	9.60

a. Up to November 1994.

Source: Ministry of Rural Development, Government of India, *Annual Report 1994–95*.

Summing up: Losing on Both Competitiveness and Caring

The bottom line of the Indian experience with regard to labor market policies and social insurance is that despite a plethora of legislation, the economy has been able to achieve neither efficiency nor equity. Indian industries' lack of competitiveness has been evident for some time. Even after the reforms of 1991, their export performance remains poor. There was a period of rapid export growth during 1993–95, but recent trends suggest that performance in this regard has deteriorated drastically. It is revealing that total Indian exports (in fact, that of all of South Asia) are lower than that of Thailand alone.

The competitiveness of an economy depends, apart from labor costs, on a large number of factors such as quality control, financial infrastructure, legal infrastructure, trade and communication facilities, and so on. However, labor costs are a crucial element in competitiveness and the weakness of the Indian economy in this respect is clearly indicated by table 10. As shown in the table, compared with Southeast Asian countries such as Indonesia, India has higher wages and lower productivity of labor in manufacturing.

If India is to join the ranks of the rapidly growing Asian economies, it needs to introduce some profound reforms in its policies on labor market and social insurance. In this context, it may have a lot to learn from East Asian countries. Many of these countries started with a situation that was not too different from what India finds itself in today. In what follows, we make some observations on possible lessons of the East Asian experience, which India can utilize for redesigning its labor market and social insurance policies.

Table 10. *Productivity, Working Hours, Monthly Wages and Annual Leave: A Cross-Country Comparison*

<i>Country</i>	<i>Monthly wage of factory workers (US\$) (US\$/month)</i>	<i>Value added per worker in manufacturing (days)</i>	<i>Annual leave in manufacturing manufacturing</i>	<i>Hours of work per week in</i>
Bangladesh	40.2	168.4	12	—
INDIA	66.1	212.2	12	46.2
Pakistan	54.1	544.3	14	—
Sri Lanka	40.3	296.5	14	49.5
Indonesia	39.6	320.5	12	—
Malaysia	276.8	864.3	9	—
Philippines	82.8	500.5	15	48.8
Thailand	133.7	—	6	50.5

— Not available.

Source: Rama (1994).

Lessons of the East Asian Experience

While looking for lessons, it is important to remember that economic policy in each country is the product of a complex set of factors relating to social, political, and historical circumstances. In that context, the experience of each country is unique and policy profiles cannot be replicated in toto. In fact, the history of development shows that there are no magic bullets for success; successful reforms grow from the roots of each country. However, by studying success stories, one can get some insights that may be of use while designing policy reforms in another country.

Reality Check

One such insight to be gained from the labor market and social insurance policies in East Asian countries is their focus on an "Implementation Culture." Japanese and Koreans did not introduce extensive social welfare provisions in the early phases of their development—their economies had not yet advanced to a point at which they would be able to handle the burden of social welfare. In India, labor market policies and social welfare programs have often been running ahead of the implementation capacity and affordability for the country. For example, the Minimum Wage Act for the unorganized sector has been totally beyond the capacity for implementation. Similarly, implementation was not given much thought when designing the hospital system for the masses, which pretends to provide free access for medical services to the common individual. The same goes for many other provisions of the State Insurance Act and the Employment Schemes in the unorganized sector. In the light of the East Asian experience, it may be useful for India to make a thorough review of the existing legislation of labor and social insurance and subject them to a hard reality check. Acts and programs that are clearly beyond the implementation capacity should be scrapped.

Building on India's Individualistic Ethos

In the Indian context, it seems that the capacity of the State to implement social welfare programs is highly limited. The country's ethos suggests a strong individualistic bent: things move when they are in the private interest. Government officials take the attitude of ruling rather than serving the people. And the common individual regards the government less as a contributor to the people's welfare than as an instrument of taxation and power. In the Indian context, therefore, it seems that for labor market and social service provision, as with economic services, market orientation and private sector incentives should be used to the maximum extent available rather than relying on the State.

Greater Role for Nongovernmental Organizations (NGOs)

In addition to private incentives, the role of NGOs should be carefully considered. India has a long tradition of charitable organizations in health, education, and social assistance to the deprived. On the whole, the functioning of these NGOs is much better than that of government organizations. Efforts should, therefore, be made to see how the country can capitalize on its tradition of charitable trusts and involve NGOs in a more substantial way for the provision of social services.

Social Insurance Rather Than Social Welfare

In the context of the role of the private sector, the Singaporean social assistance system should be studied carefully. Singapore's policy on social security and welfare is clearly reflected in the following frequently cited statement.

"We want to teach the people that the government is not a rich uncle. You get what you pay for.... We want to disabuse people of the notion that in a good society the rich must pay for the poor. We want to reduce welfare to the minimum, restrict it only to those who are handicapped or old. To the others, we offer equal opportunities... Everybody can be rich if they try hard."

[Mr. Rajaratnam, former Senior Minister, quoted in Vasil (1984)].

For health care, labor redeployment, labor safety and pensions, it should be possible to treat the problem as a financial sector issue rather than a fiscal sector issue. The purpose of social insurance will be to give basic minimum protection to all those in need of assistance whether or not they qualify on the basis of the principle of commercial insurance business. The contributions for these social insurance programs should not be a part of the general government budget and these contributions should be proportional rather than progressive with respect to income.

Regarding health care, Indian authorities are moving toward a greater acceptance of the insurance principle. According to recent policy indicators, even foreign insurance companies will be allowed into the health insurance business. This is a welcome move and efforts should be made to implement these reforms as soon as possible.

Even for labor safety and labor redeployment, it would be desirable to explore the scope for insurance. If there are properly developed insurance schemes, employers and employees can make their contribution to an insurance company and in case of injury or unemployment, the insurance company would pay the benefits. For labor deployment, it would be useful to rely on private placement companies rather than on the state-run Employment Exchanges. Such placement services have developed in India in high-skill areas and there is a considerable scope for applying this approach for labor redeployment for a wider front.

Similarly for the pension issue, there is a growing consensus that State-managed pension funds have usually low rates of return and they can impose an unmanageably high burden on the State. It would be desirable to develop a largely “defined contribution system” of pension and allow greater use of private sector investment opportunities to maximize the rate of return on pension funds.

Market Forces and Insurance Principles for the Unorganized Sector

For the unorganized sector, it is not possible for the State to enforce Acts to ensure minimum wages or health or pension benefits. Here again, the only realistic option is to encourage the development of the insurance principle with a strong regulatory framework provided by the government. (It should be useful to see to what extent East Asian countries used State intervention to improve the conditions of labor and social service provision in the unorganized sector in the early phase of their development.)

Toward a Partnership Approach in Labor Relations

In the area of labor relations, India has a lot to learn from the Japanese experience. The way Japanese labor relations succeeded in moving away from militancy in the late 1940s and early 1950s to a partnership approach in the late 1950s is worth studying for Indian policymaking. Japanese bonus practices as part of the wage package is also worth studying. The bonus system provides a linkage between wages and profitability. It thus creates an incentive for labor to help increase productivity while at the same time providing flexibility to the management when profitability declines. This system has also been found useful for increasing the savings rate in the economy. The Indian wage system has the basic structure of the bonus payment but, as noted earlier, over time, the bonus system has been delinked from profitability. If this link could be restored, it would improve the competitiveness of the Indian industries.

Imperatives of Rapid Growth for Harmonious Labor Relations and Effective Social Insurance

One of the most important lessons of East Asia is that rapid growth helps in improving the conditions of labor and social insurance. Unless there is rapid growth in the system, it becomes difficult to find resources for effective provision of social services including labor redeployment. East Asian countries have also demonstrated that export orientation is one important source of increasing productivity and growth. The more recent experiences of the Southeast Asian countries and China show how foreign investment and export promotion can become a mutually reinforcing process. India now has the benefit of being a latecomer in this area and it can learn from the experiences of Southeast Asia and China to launch a serious program of attracting foreign direct investment and promoting exports. As China’s experience shows, even for a large country, export orientation can make a big difference to its productivity and overall growth. With a determined effort for export promotion, India can perhaps achieve growth rates similar to what China has experienced over the last two decades. With such growth, the problems of labor relations and social services will be much more manageable than has been the case in the past.

Bibliography

The word *processed* describes informally reproduced works that may not be commonly available through libraries.

Government of India. 1993. *Report of the Committee on Industrial Sickness and Corporate Restructuring*. Prepared by the Union Ministry of Finance, under the Chairmanship of Dr. Omkar Goswami. July.

- _____. 1996–97 and various years. *Economic Survey*.
- ILO (International Labour Office). Various years. *Yearbook of Labor Statistics*. Geneva.
- _____. 1984. *Introduction to Social Security*. Geneva.
- Ministry of Labour (Government of India). 1993. *Indian Labour Yearbook*.
- _____. 1996. *Annual Report 1996*.
- Papola, T. S. 1992. "The Question of Unemployment." In B. Jalan, ed., *The Indian Economy: Problems and Prospects*. New Delhi.
- _____. 1994. "Structural Adjustment, Labour Market Flexibility and Employment." *Indian Journal of Labour Economics* (37)1.
- Prabhu, K. Seeta. 1996. "Health Security for Indian Workers." *Indian Journal of Labour Economics* (39)4.
- Rama, Martin. 1994. "Flexibility in Sri Lanka's Labor Market." Policy Research Working Paper No. 1262. World Bank, Washington, D.C. March.
- Sankaran, T. S. 1996. "Studies on Human Development in India." UNDP (United Nations Development Programme) Project Discussion Paper Series, No. 14. June.
- Sen, A., and J. Ghosh. 1993. *Trends in Rural Employment and the Poverty-Employment Linkage*. ILO-New Delhi Office. (Processed.)
- UNDP (United Nations Development Programme). 1997. *Human Development Report 1997*.
- Vasil, R. K. 1984. *Governing Singapore*. Singapore: Eastern Universities Press.

Other WBI Working Papers

Building Human Capital in East Asia: What Others Can Learn

Jandhyala B. G. Tilak

2001. 67 pages. Stock No. 37166. Price code 000

Education Policy in the Republic of Korea:
Building Block or Stumbling Block?

Jisoon Lee

2001. 31 pages. Stock No. 37164. Price code 000

Health Insurance and the Growth of the Private Health
Sector in the Republic of Korea

Bong-min Yang

2001. 22 pages. Stock No. 37163. Price code 000

Information and Communication Technology in Rural Development

Subhash Bhatnagar and Robert Schware, editors

2000. 192 pages. Stock No. 37160. Price code 000

Labor Market and Social Insurance Policy in India:
A Case of Losing on Both Competitiveness and Caring

Ramgopal Agarwala and Zafar Dad Khan

2001. 26 pages. Stock No. 37168. Price code 000

The National Pension Scheme of the Republic of Korea

Bong-min Yang

2001. 18 pages. Stock No. 37162 Price code 000

Regional Economic Convergence: Do Policy Instruments
Make a Difference?

Somik Lall and Serdar Yilmaz

2001. 22 pages. Stock No. 37161. Price code 000

Social Expenditure in Taiwan (China)

Peter C. Y. Chow

2001. 57 pages. Stock No. 37167. Price code 000

Social Policy in Singapore: A Confucian Model?

Habibullah Khan

2001. 30 pages. Stock No. 37165. Price code 000

Sorting Out Government Roles and Responsibilities in the Hungarian Transition

Robert Ebel, Istvan Varfalavi, and Sandor Varga

2000. 28 pages. Stock No. 37156. Price code 000

*The complete list of Institute publications is available in the
WBI Publications Catalog 2000. Stock No. 31708*

Order World Bank Institute publications

by phone or fax: Phone: 1-800-645-7247 or (703) 661-1580; Fax: (703) 661-1501

by mail: Write to The World Bank, P.O. Box 960, Herndon, VA 20172-0960, U.S.A.

by e-mail: books@worldbank.org

through the World Wide Web at: <http://www.worldbank.org/publications>

or visit the WBI website at: <http://www.worldbank.org/wbi>

The mission of WBI is to help World Bank clients and staff acquire new development knowledge and skills through a variety of courses, seminars, and other learning events. It designs programs on topics related to economic and social development for governments, nongovernmental organizations, and other stakeholders. The Institute produces and disseminates publications and electronic information products that support these objectives.

To order World Bank Institute publications:

by phone or fax:

Phone: 1-800-645-7247 or
(703) 661-1580
Fax: (703) 661-1501

by mail:

Write to:
The World Bank
P.O. Box 960
Herndon, VA 20172-0960
U.S.A.

by e-mail:

books@worldbank.org

through the World Wide Web at:

[http://www.worldbank.org/
publications](http://www.worldbank.org/publications)

*For information on WBI, visit us on
the World Wide Web at:*

<http://www.worldbank.org/wbi>