Chapter Nine

CONCLUSIONS
A Summary of Findings and Policy Directions

The existence of dual labour markets in the urban areas of developing countries has generally been agreed upon by most researchers. Most of the neo-classical frameworks, however, have failed to account for the observed patterns. A review of related literature brings forth three important areas of inquiry in this regard. Firstly, it is important to understand the temporal development of different sectors in an urban economy. At the same time, the extent and nature of labour absorption in different sectors, and the process of labour transfers and mobility need to be examined. Lastly, it is necessary to analyse the structure of earnings distribution and the determinants of these patterns. This study has attempted to gain an insight into these lines of inquiry, particularly with reference to the lower strata of workers in Ahmedabad.

After tracing the development of Ahmedabad’s workforce and economic structure from the available secondary sources, a primary survey of workers from selected slums in the city was conducted. The study is mainly with reference to the lower strata of workers. It is also largely cross-sectional with a basic orientation through the supply side. For the analysis of mobility, detailed information on the job history of workers was used. The major limitation of focussing on only the lower strata of workers is that the sample is truncated to a great extent. This affects our understanding of the
mobility patterns in that those who might have improved their situation over time and have moved out of these slum areas are essentially missed out from the analysis. Secondly, this truncation bias affects the estimates of determinants of earnings if a large number of persons with better education levels have moved out. However, this type of mobility is likely to have been quite small and restricted, given the phenomenal growth of slums in Ahmedabad in the last two decades (Mehta, 1982). In any case, this limitation has to be borne in mind while deriving policy implications.

9.1 STUDY FINDINGS AND INFERENCES

The examination of Ahmedabad's economy and the detailed study of the labour market processes amongst the lower strata of workers in Ahmedabad bring forth the following major conclusions.

9.1.1 Changing Economic Structure of Ahmedabad

Ahmedabad has registered rather moderate rates of population growth in the last three decades. The rate of growth has even moderately fallen in the last decade. Further, the contribution of net-migration to this growth also appears to be declining for the Ahmedabad Urban Agglomeration area. The out-migration from AUA during the '61-'71 decade was very high with a little over one lakh persons leaving the city. The effects of these patterns of population growth are felt in the growth of labour force and work-force also. The labour force participation rates in Ahmedabad city came down from 56% to 53.6%, in the '61-'71 decade, even after adjusting for the definitional changes. This is partly a reflection of greater spread of education and the resultant lowering of participation rates in the younger
age-groups. In the next decade (1971-'81), the workforce grew by 36.6% in the AUA. Over the years, the Ahmedabad workforce also tends to be both older and more educated.

Despite these moderate growths in population and workforce during the last two decades, the organized sector in Ahmedabad has failed to keep pace especially in the last decade. The rate of growth of organized sector has shown consistent decline since 1961 as brought out in Table 9.1.

Table - 9.1
Growth of workforce and Organized Sector Employment in Ahmedabad District, 1961-81 (Percentage rate of growth per annum)

<table>
<thead>
<tr>
<th>Year</th>
<th>Work Force *</th>
<th>Organized sector** Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1961-1965</td>
<td>2.6</td>
<td>3.6</td>
</tr>
<tr>
<td>1966-1970</td>
<td></td>
<td>3.0</td>
</tr>
<tr>
<td>1971-1975</td>
<td>4.0</td>
<td>2.0</td>
</tr>
<tr>
<td>1976-1980</td>
<td></td>
<td>2.7</td>
</tr>
</tbody>
</table>

* See Table 5.16

** Directorate of Employment, Manpower and Training, Under the Employment Market Information Scheme (EMI).

The structure of the two sectors in Ahmedabad reveals the importance of organized manufacturing sector as a source of employment. However, unlike popular beliefs, almost one third of the workers in the unorganized sector are also in in the manufacturing activity. On the other hand, almost
36% of the organized sector workers in 1981 were in the tertiary sector. More importantly, while the manufacturing employment has stagnated in the last two decades, the employment in tertiary activities in the organized sector, especially in the public sector which employs educated labour is gaining in importance. This is mainly due to the virtual stagnation of the dominating textile industry in Ahmedabad. The new industries like chemicals and engineering products are less labour intensive and require very different type of skills. Thus, during the last two decades, almost 70% of the growth in employment was absorbed by the unorganized sector. Most of this growth has been due to the growing number of employees in unorganized small manufacturing units and single workers in trade and commerce. Both these represent rather low earnings, at least amongst the lower strata of workers.*

The overall economic situation in Ahmedabad presents worsening trends over the last two decades. There has probably been a significant decline in earning opportunities for workers in Ahmedabad during this period. The effects of these macro developments in the urban economy on the lower strata of workers must have been considerable. As a large proportion of these workers are in the slum settlements, the results of the primary survey of slum workers bring forth the nature of such effects.**

9.2.1 Labour Absorption by Sectors

One of the popular policy reactions in such situations of a lagging organized sector is to suggest an expansion.

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* On the basis of our results the average earnings for these two groups were Rs. 230 and Rs. 278 respectively as compared to 520 for the Formal Sector.

** The households in slum settlements have grown at an unprecedented decadal growth of 88% from 1961 to 1971 (a, 1982).
Of the organized sector through attracting new industries and "choosing a product-mix and technology-mix,.... which absorbs substantially more labour per unit of input and investment". (Govt. of India, 1978). Such policy measures implicitly assume the possibility of smooth labour transfers between the sectors, if the benefits have to flow to those in the lower strata. Our results, however, clearly point out that the sectoral absorption of workers at the time of entry into the labour market and subsequent mobility are both strongly related to certain background characteristics of workers.

The formal sector tends to absorb somewhat older and more experienced workers. They are also better educated and more likely to be skilled and trained than those in the informal sectors. Our evidence broadly supports the notion of informal sector being dominated by the secondary earners. The unmarried workers are also more likely to be found in the latter. On the whole then, the formal sector clearly absorbs more skilled labour. There may be two possible explanations for this. Firstly, the nature of work in the formal sector, especially in the manufacturing activity may in fact demand such labour. Alternatively, some of the attributes like education level may be used as screening devices, especially in the services in the formal sector. The older, more experienced and a larger proportion of principal earners in the formal sector, on the other hand may also reflect a process of graduation.

More important than such human capital variables, workers' social background and especially his family background influence the entry to the formal sector. Thus the more forward castes have an easier access to formal sector jobs. Also, the children of educated fathers who are in the formal sector are at a clear advantage in gaining entry to it.
Similarly, most of the secondary earners who have their principal earners in the formal sector also join the same. About one-third of slum workforce are migrants. Though migrants as a group are equally likely to be absorbed in the formal and informal sectors, there is a decisive impact of the migrants' rural origins on their sector of work in Ahmedabad. If we had looked at the rural origins and the nature of occupation in Ahmedabad in more disaggregated form the relationship would have been even more distinct. Thus, enclaves of formal sector opportunities based on caste, rural origins and family backgrounds are being created with inter-generational recycling.

The picture that emerges from the above findings is that even an expansion of the formal sector opportunities may not be able to have any effect on the lower strata of workforce which is confined to the informal sector, as their access to the necessary economic processes for the entry to the formal sector may be restricted by their caste and family background. Such an expansion would most likely absorb workers from within similar caste backgrounds and the additional secondary earners from households of formal sector workers. It may also abate the probable return migration of informal establishment and casual formal workers who can meet the requisite criteria for a formal sector entry. We need to however study the actual recruitment processes, hiring practises, internal promotion possibilities in the formal sector and the nature of effective access criteria for entry into the informal sectors in greater detail before arriving at specific policy recommendations.

* This was illustrated by Badhakrishna et.al. (1977). In their words, "the broad groups had within them a number of sub-divisions and the traditional occupations they pursued before migration had homogeneity among the sub-groups rather than among the broad groups.... The occupations they pursued subsequently (in the urban areas) were only a horizontal extension across space". (p.179).
Labour Mobility and Career Routes

The effect of these access processes is also felt in the patterns of labour mobility and the career routes of different workers. On the whole, the sampled workforce tends to be quite stable both in terms of actual and potential mobility. Only about 50% have changed their jobs during their career and a similar proportion indicate some desire for change. Most of the moves have been voluntarily made. However, this does not imply uniform advantage due to mobility. On the whole the intra-sectoral moves with a change of activity are more advantageous, unless the inter-sectoral moves are from the Informal to Formal sector. For the other workers, who cannot achieve such upward mobility, the main option is to change their activity to one which is more in demand in the urban economy. The actual selection of an activity will however depend on the social mores of the groups to which the worker belongs. The Self employed sector generally offers better opportunities for such changes compared to others sub-sectors in Informal sector hence these workers are at a relative advantage over other workers. This is also reflected in higher career gains amongst the self-employed which are comparable to those of the formal sector workers. Within the self-employed, those in manufacturing and services receive better earnings than those in retail. The movement to both self employed and Formal sectors represents upward mobility which is generally faster, whereas the process of downward mobility is slower, more gradual involving a greater number of changes.

The career routes of workers reveal two main patterns of upward mobility. Firstly, there is the process of graduation
to the formal sector envisaged in the Harris Todaro framework. Even if we discount for the 11% of workers who have graduated up from the casual status, almost one-third of the workers in the formal sector have moved up from other sectors. Thus, the migrants with relatives in the Formal sector or the secondary earners with the principal earners in the Formal sector may often enter the labour market as casual unattached workers or as employees in the Informal establishments. They also pick up the necessary skills by registering as casual (badli) workers. They are however quite assured of an eventual entry in the Formal Sector. These moves were relatively fast, suggesting an easy entry for those who have the requisite contacts, with other workers in the family being in the same sector.

The second path of upward mobility is to the self-employed sector. The workers enter the labour market again as casual workers or in the Informal establishments. After gaining experience, developing contacts and acquiring some capital for the necessary assets, they venture into starting out on their own. Thus almost 40% of the self-employed workers have moved in from other sectors over their careers. Within the self-employed sector, the workers have changed activities often to improve their situation. However, a large proportion of workers desire an improvement in the same activity which is inhibited by a lack of information about loan possibilities.

Although the extent of direct downward mobility is very limited with only 6% of workers having moved down in terms of sectoral location in their careers, the constricting opportunities in the formal sector are probably forcing the newer entrants into less potential sectors and activities over time. The sector of work at entry can have a decisive
impact on a worker's chances in later years. This is again largely determined by the caste and parental background.

The workers' desire for change on the whole seems quite rational and its extent is more related to the attractiveness of the current job rather than the observed levels of past mobility. Regardless of all other factors, the disadvantageous sectoral location affects potential mobility positively. Within a sector, the level of earnings is the most decisive factor. Thus, the workers are quite aware of the effects of sectoral location on their earning opportunities. This is also reflected in the highest preference for self-employment amongst the potentially mobile workers. This shows the workers' correct interpretation of better earnings in this sector. It also reflects their perception of easier entry to this sector and a greater chance of success than in the formal sector. Only two-thirds of the potentially mobile workers are making concrete efforts for any changes. The nature of efforts are also of very informal type only. The most important reason for this tendency is workers' own rather negative assessment of their ability to achieve such changes.

9.1.4 Impact on Workers' Opportunities

The nature of developments in the urban economy of Ahmedabad have had an impact on the opportunities available to the workers over a period of time. In line with the rising levels of general education amongst the Ahmedabad workforce, there have probably been upward shifts in the criteria which may determine access to the formal sector. This is further aggravated as the employment
opportunities in the formal sector are expanding at relatively lower rates. Although direct downward mobility of workers is not very prevalent, the opportunities open to the newer entrants are more restricted. Although it is not possible to estimate the exact magnitude of entrants in different sectors over the years from the one point data, it may be valid to at least indicate broad trends. These show that the proportion of workers entering the formal sector directly has declined substantially in the last three decades. The newer entrants are being diverted to the informal establishments and casual formal sectors.

Thus the general condition in the urban economy, though it may not affect those already in the formal sectors, is forcing the newer entrants into less potential activities and sectors over the years. It is, however, necessary to undertake time series analysis to understand the impact of changing urban economic structure on the opportunities for the workers.

The general economic situation, which constrains the opportunities in the formal sector, probably also leads to some incidence of return migration from the informal establishments and casual formal sectors. Thus, those with their eyes on the formal sector may prefer to return 'home' on failing to gain an entry, rather than continue in the informal establishments and casual formal sectors. The average earnings in these sectors are below their expectations and aspirations. Besides the lower earnings in these sectors, the work conditions are likely to be much worse in view of a lack of any effective regulations. The involuntary mobility amongst the workers

* This is because their earnings, especially in the textiles, are protected through institutional means.*
in these sectors is also more common. The employees in Informal establishments also do not receive any additional employment related benefits.

9.1.5 Impact on Workers' Households

The impact on the households of workers is more through the processes of absorption and mobility amongst these lower strata of workers. First of all, the workforce participation rates at the household level are affected mainly by economic considerations but within the given social mores of different groups. There are clear variations in participation rates amongst households with principal earners in different sectors of work. Since the household sizes amongst the informal and formal sector workers are not significantly different, these variations result in differences in dependents per earner ratios. The workers in the formal sector belong to households with more dependents per earner on an average than the workers in the informal sector. Despite this balancing factor, the per-capita household earnings for the workers in the formal sector are almost twice of those in the informal sector. This is related to both the much lower worker earnings in the Informal sectors, as well as tendency for workers in a household to be in the same broad sector of work. Thus, the combined effect of lower earnings in the Informal sector and a lower probability for these workers to graduate up to the Formal sector results in their extremely disadvantaged situations which percolates over to the next generation.

The second major impact is on the perception of these households towards education and development of technical skills for themselves as well as, and more importantly, for their children. Both formal education and
technical training are essential to gain an entry into the Formal sector, and they bring greater returns in a Formal sector job. Since the entry to this sector is to a great extent restricted by one's caste and family background and the rural origins, only those who perceive a probable entry into the formal sector will try to gain the label of formal education and avail of technical training through formal and informal means. Thus, the lower educational levels and significantly lower rates of enrollment for children in age-group 5-15 amongst the Informal sector workers are probably results of quite rational decisions on their part as the likelihood of obtaining a formal sector job is extremely small.

9.1.6 Structure and Determinants of Labour Earnings

Amongst these lower strata of workers, there are rather wide and highly significant differences in average earnings across sectors. A formal sector worker on an average earns about 2.3 times as much as a worker in the Informal sector. The advantage of the Formal sector location is discernible in different activities as well as different types of jobs and skill levels. These sectoral differences are also quite distinct so that the differences within each do not overlap considerably with differences between them.

The adapted earnings function clearly brings out the importance of certain background variables and personal attributes as determinants of earnings besides the usual human capital variables. The small returns to education from our results may be a reflection of the truncation bias in that those with better education might have moved out. However, the restricted and limited inter-group mobility for most workers may imply that mere raising of educational levels may not necessarily lead to an improvement in economic situations. The returns to experience are a little higher amongst this strata of
workers, indicating that experience is probably used for evaluating the productivity of a worker rather than formal education. The ability and opportunities of workers for improving the quality of their experience are both affected significantly by the location of residence in the city and the earner status of the worker in the household. All these variables together explain about 48% of the logvariance of earnings.

The sectoral location of an otherwise equivalent worker, however, affects the earnings function in two important ways. First of all, earnings for seemingly comparable workers are reduced by almost 50% due to an unfavourable sectoral location. Thus the earnings function tends to shift due to sectoral location of workers. Such shifts are most likely a result of institutional reasons as the formal sector wages are controlled through effective trade union practices.

An alternative explanation for sectoral differences in earnings may be that the workers in each sector face very different earnings functions. In other words, the returns to education and experience may be different in the different sectors of the labour market. The results from earnings functions on samples stratified by sectors shows this to be true to a certain extent. The returns to education, though relatively quite low in all the sectors are higher for workers in the formal establishments. The higher returns to experience in all the sectors probably indicates that it is used as an alternative to formal educational qualifications in evaluating the productivity of a worker. Surprisingly the gain through the years are a little higher in almost all the informal sub-sectors, though this increase slows down very quickly compared to the formal sector. The importance of background variables
and personal attributes is common for almost all the sectors though more important for the independent workers. The importance of skill for the lower strata of workers is clearly evident from the high and significant returns in all the sectors including the self-employed. This clearly implies that rather than following a policy of merely increasing the education levels, it may be more worthwhile to pursue an occupation specific skill development programme.

On the whole, the large differences in sectoral earnings are due to both the shifts of earnings functions due to institutional reasons as well as a change in the slope of earnings functions on account of differential returns to human capital and other variables in different sectors. The latter is probably partly due to credentialism, but also because of the rather different nature of activities in both the sectors so that a higher quality of labour may actually be used more productively in the formal sector. The alternative Mazumdar hypothesis of different supply prices of labour is largely left unsubstantiated as there are no significant differences amongst the workers by the omitted variables which are likely to differentially affect the cost of labour reproduction and thus result in different supply prices.

9.2 **Policy Directions**

Given the major findings as outlined above, a few directions for policy emerge from the study. The suggestions below are not so much for any new policies per se, but discuss the relevance and implications of pursuing the rather well known alternatives for development of

* These alternatives donot necessarily imply exclusive and distinct policy measures.
the urban economy which reaches down to the lowest stratum of workers. We have considered mainly three policy areas in these perspectives. The implications considered are mainly in terms of their impact on the lower strata of workers and their households.

9.2.1 Expansion of Formal Sector Employment

As we have seen earlier, in response to the rather slow growth of employment in the Formal Sector, it is common to suggest an increase in employment in the formal sector. This may be either through its direct expansion and also by "choosing a products-mix and technology-mix, even in the organized sector, which absorbs substantially more labour per unit of input and investment" (Govt. of India, 1978). We would refrain at this stage from judging the actual possibility of achieving this type of growth, not because that is irrelevant, but such considerations are beyond the scope of this study with its basic orientation to the supply side. We also do not look into the issue of location of such growth in the city system.

Assuming that such growth of employment in Formal sector is possible to achieve in Ahmedab, the question that we attempt to answer is with respect to its effect on the lower strata of workers in Ahmedabad. The probable impact will be two fold. Firstly, the increased opportunities for formal sector jobs will have an effect on the household earnings. However, from our evidence it appears that this will be possible only for the workers from within similar caste back-grounds and the additional secondly earners from households of Formal sector workers. The

* However, it may be pointed out that our study also brings out the increasing capital intensive growth of the organized manufacturing sector in Ahmedabad, in both textiles and the growing metal and chemical industries. Hasim (1979) also found the capital intensive nature of even the small-scale industries which have strong linkages with manufacturing sector as a whole. "If the growth potential of these industries happens to be more than that of others, capital intensity of small sector is likely to increase".
lowest stratum of workers who are confined to the informal sectors may not directly benefit by gaining an entry to the formal sector. Even if the expansion was on a sufficiently large scale it would probably generate additional migration of potential workers with the favourable background characteristics and abate the probable return migration of workers in the informal establishments and Casual formal sectors who can meet the requisite access criteria.

Thus, unless the expansion of the Formal sector is accompanied by changes in the recruitment process the direct benefits will largely preclude most of the workers who would continue to be in the Informal sector. However the indirect effect of additional Formal sector employment on the employment in Informal sector may be quite beneficial. Such expansion of Informal sector employment will be more demand based and thus will not affect earnings adversely. Self employment in almost all activities and manufacturing activity in other sub-sectors represent the Informal sector categories which are likely to benefit from such indirect effects.

9.3.2 Development of the Informal Sector

Development of the Informal sector in response to the problems of unemployment and under-employment has been

* The actual accrual of benefits will of course depend on the nature of linkages. Bienefeld (1975), Bose (1978a) and Peattie (1980) all have found these to be quite exploitative in their respective field research. Further studies in this important area are necessary to ascertain the nature of such linkages and to derive policy implications.
put forth mainly by various country and city studies of ILO. It may be termed as a target group approach focusing on the informal sector participants and activities. ILO's studies under the World Employment Programme emphasizes the structural disadvantage approach. The major premise of this view is that despite the advantages of the informal sector in terms of "flexibility, viability and adapted technology of productive activities", it is disadvantaged by unfavourable market conditions and lack of government or political protection. The policy orientation is, therefore, obviously towards compensatory measures like better credit, technical training and formation of cooperatives.

Our findings of a segmented labour market, in which, for otherwise equivalent workers, there is a shift in the earnings functions as well as a change in its slope, because of their sectoral location, seem to support some disadvantages for the workers in informal sector. However, this may be due to structural reasons as put forth by ILO, or may simply reflect differing demand patterns for different activities in each sector. Structural reasons refer to the discriminatory treatment of, on the lack of support for the informal as against the formal sector despite the former's productive role in terms of generating employment and distribution of income. On the basis of our findings, it appears that both the arguments may be valid but each for a different sub-sector of the total informal sector. The self-employed sector has been surprisingly, quite resilient to 'over-entry' by the residual workers, as suggested by many writers and also witnessed in Madras by ORG (1980a). This has prevented.

* This is discussed at length in Chapter three, section 3.1.1
an erosion of the profits by sharing of the limited market (demand) by too many heads. Amongst all the sub-sectors, the self-employed seem to be better off and they have also gained substantially in terms of real earnings over their careers. A large number of the self-employed also expressed a desire to improve their present activities. However, they are generally unable to do this because of a lack of adequate knowledge regarding the availability of and required procedures for getting loans. This is partly a reflection of lack of adequate facilities for these needs, especially for the lower strata of the self-employed workers

The low earnings in the Casual and Informal Establishments sectors, may also suggest a lack of adequate demand for their services and/or products. This is reflected in the fact that the workers in these sectors were generally not able to get work throughout the previous week (and month) and hence brought down the levels of average earnings. This lack of demand may be a reflection of the slow growth of the Formal sector as these are often linked through a variety of market and technology linkages. Similarly, the demand for services and products of self-employed indirectly depends on the purchasing power generated through employment in the Formal sector to a certain extent.

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* The other important aspect referred by many researchers is the nature of linkages and whether these tend to be exploitative. We do not have adequate data on the nature of linkages to draw any inferences in this regard.

** It is also likely that there may be surplus labour situation in these sub-sectors, as reflected by a greater number of newer entrants moving to these sectors. This may also lead to labour exploitation as there is a lack of effective labour organisation.
Thus, an approach to the development of Informal sector must consider at least two important aspects. Firstly, the Informal sector itself is a heterogeneous affair and quite different types of programmes may be necessary for each segment or sub-sector within it. Secondly, the fortune of the Informal sector is likely to be quite decisively linked to the formal sector and thus it would be futile to consider it in isolation from the overall development of the urban economy.

9.2.3 The Education Policy

We have earlier discussed regarding the possible benefits of education to these lower strata of workers. Our findings indicate two-fold returns to formal education. Firstly, some level of formal education is the requisite access criterion for opportunities in the Formal Sector. Secondly, at higher levels, the returns to education also may be higher either due to credentialism or because educated labour may be used more productively in the Formal sector. If, as we have seen from our evidence, the entry to the Formal sector is clearly restricted by certain background factors, then no substantial benefits from increasing the levels of education will accrue to workers who are confined to the Informal sectors. In this case, it may be much more advisable to undertake certain occupation specific skill development programmes. This is especially relevant in view of our results which indicate very high returns to skill for workers in almost all the sectors. As the acceptability of different occupations is likely to be determined by group specific social mores, it is essential to orient the programme on a group basis with a sensitive identification of group preferences. Along with the skill development

* Earlier studies by Papola (1978) and Hasim (1979) have also emphasized this latter aspect. Hasim found that the growth of small-scale sector must be seen as a concomitant to the growth of large-scale manufacturing sector. Similarly Papola (1978) also emphasized the need to look at the two sectors as interlinked and complementary segments of an urban economy.
programmes, the importance of at least the basic level of education cannot be negated. This is necessary, especially in the long run. It is likely that at least a few persons from other deprived castes manage to gain an entry into the more favourable employment opportunities due to their educational attainments. Then, these "Intruders (can) create an outpost through which they try to bring in relatives and other social equals". (Breman, 1976, p.906). However, the mere provision of schools may not lead to their effective utilization as most of these workers rightly perceive the benefits of education to be rather small whereas the opportunity costs of sending children to school may be quite high. Thus, basic education with special and appropriate incentives to meet these opportunity costs and to enhance the value of education to these households by promise of better jobs may be essential. This should be followed or coupled with skill development programmes as discussed above.

Our analysis of behaviour of urban labour in the lower strata in Ahmedabad has brought out the impact of the structure of urban economy on the mobility patterns and earnings. It clearly sets the need for further research in examining the impact of developments in the urban economy on workers and households in the urban areas as well as on the potential future supply from rural areas. The relevant policy directions can thus only emerge from integrating the findings of such research studies encompassing the various facets of the urban economy.