

## COMMENT

## More Machines, Less Labour

A SURVEY OF SMALL AND medium industries undertaken by the Confederation of Indian Industries has indicated that obsolete labour laws are the second most important factor after infrastructure which is obstructing their growth. The Prime Minister has also said that absence of labour reforms is leading to low rate of employment generation. Many industries like sugar and tourism are seasonal in nature. They have to pay compensation for the lean months to the workers due to labour laws. Wages of workers are fixed at high levels. So say the captains of industry. It is difficult to dismiss an inefficient worker if one strictly adheres to trade union act but employers seldom honour valid trade union activities. These provisions lead to higher cost of employing labour. The industrialist's response is to use more machines and less labour. This is the reason that number of workers employed in the organized sectors has declined from 282 lacs in 1997 to 264 lacs in 2005. This is despite the economy showing high rate of growth. It's a jobless growth phenomenon.

This mutual contradiction between economic growth and employment is actually rooted in the very process of development. Economic growth means more availability of capital which, in turn, means lower cost of capital. The interest rates are low in developed countries for this reason. The price of loan declines with increased availability of capital just as price of potato in the market declines with increased number of trucks coming in. The wages of workers, on the other hand, increase along with economic growth though wage earners suffer due to price rise and market manipulation. The daily wage of an unskilled worker in the US today is about Rs 4,000 per day against Rs 200 in India. The logical consequence of low price of capital and high price of labour is that industrialists prefer to use more machines and less labour. This leads to loss of employment. Mostly, the unskilled workers lose the jobs. Installation of automatic machines leads to increased demand for skilled workers in running and maintaining them while number of unskilled workers required is less. Thus one sees IIT graduates with multiple options getting high pay packets while the poor people take up arms under the leadership of the Naxalites.

The worker is doubly hit. First he loses his jobs to the machines. Next, he is hapless against the big factory. Previously, there used to be large number of small factories employing large number of workers. That situation does not exist any more. It is not so easy to switch jobs these days even for skilled workers. This helplessness of the workers is used by industrialists to exploit them by paying meagre wages, sometimes below basic wages and insisting on long work hours.

But the Prime Minister wants to allow businesses to hire and fire at will, remove their fear of employing large numbers and, he feels, they will generate more employment then. Nobel Laureate Professor Edmund Phelps however says : "The limitation of this approach, however, is that a free market for labour will neither eradicate unemployment nor transform marginal, low-end workers into high-productivity, high-wage employees... Market forces alone are unlikely to solve the unprecedented levels of labour-market exclusion." Very small number of jobs may be created because businesses may find even such low wages to be prohibitively high compared to the capital that is available even cheaper.

It may appear that the government is providing relief to the unemployed but actually it is debilitating them from seeking productive employment and locking them into long-term poverty.

The alternative, according to Prof Phelps, is like this: "The best remedy is a subsidy for low-wage employment, paid to employers for every full-time low-wage worker they hire... With such wage subsidies, competitive forces would cause employers to hire more workers, and the resulting fall in unemployment would cause most of the subsidy to be paid out as direct or indirect labour compensation. People could benefit from the subsidy only by engaging in productive work." That is precisely what Gandhi had said in Young India of October 13, 1921: "I must refuse to insult the naked by giving them clothes they do not need, instead of giving them work which they sorely need." Dr Man Mohan Singh should listen to Prof Phelps and Mahatma Gandhi. They should devise schemes that create demand for workers. □□□

*[contributed]*