I DISCUSSION PAPER

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Macroeconomic Reforms and the Indian Manufacturing Sector:

Locating Labour

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Discussion Paper

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II INTRODUCTION

In the May of 1990 when Montek Singh Ahluwalia delivered his seminal paper, "Towards a Restructuring of Industrial, Trade and Fiscal Policies" for an internal discussion in the government, a reservation on the question of labour was made for a later date, saying,

> *"Reforms relating to labour legislation are also necessary. However, this is a much more difficult and politically sensitive area. A great deal of preparatory work is needed before we can begin to make significant progress" (1990, pp. 18-19)*

This reservation was shared by the statement of industrial policy of 1991, albeit in the form of a lip-service (Ministry of Industry, GoI, July 1991, p. 3) and was accompanied with a lack of labour reforms in what has come to be known as a watershed moment in contemporary Indian history, generally, and, more particularly, in the history of Indian industrialization, commonly referred to as the liberalization, privatization and globalization (LPG) reforms. This lack was noteworthy on two counts specifically.

First, this marked a shift from the earlier industrial policies of the government since 1948, wherein labour remained a crucial aspect of legislation with a protectionist and a participatory bent (Mitchell, Mahy, & Gahan, 2014, pp. 12-17; Bhattacharjea, 2022, p. 581; Panagariya, 2024, pp. 97-100, Appendix 1-3; Roychowdhury, 2018, p. 4). Secondly, the public discourse of the time engenders that labour reforms had been on the agenda, regardless of what shape they take (Bhagwati & Srinivasan, July 1993; Second National Commission of Labour, 2002, pp. 8-12; Ghosh, 2004/ 1; Panagariya, 2004; World Bank, 1989, pp. 104-114)[1]. Infact, given the shape of labour law in India at the time of the reforms, the demand to 'rationalize and simplify' various labour laws emanated from contending ideological camps engaged with the question of Indian industrialization. Seldom has such consensus been achieved. However, labour law reforms were never enacted, making them one of the fundamentals of Indian industrialization ever since—its 'unfinished agenda' (Bhattacharjea, 2022; Roychowdhury, 2018).

This marginalization of labour, or rather, of manufacturing sector labour in the reforms of the 90s, is matched by a certain limitation in how they came to be evaluated in their impact on that sectors' labour. However, lest my claims seem exaggerated against an abundance of literature on the reforms of 1991, qualifications are in order[2].

Firstly, the studies which took up the case of reforms and labour usually did so in terms of the labour market outcomes, looking at labour in a national aggregate sense, rather than with sectoral specificity (Ghosh, 2004/1; Sundaram, 2001; Roychowdhury, 2018; Roy, 2007). On the other hand, those that did deal with manufacturing labour were usually confined to one industry group such as automobiles, or textiles and garments and that, too, following a cluster approach (N., 2001; Hirway, 2011; Jha & Chakraborty, 2014; Barnes, 2018; Uchikawa, 2014). One of the reasons why they reflect a certain limitation is also because they were published after a decade of reforms had elapsed and the industrial relations were marked by newer policy developments or that the studies came after

1 . Though the major concern with the question of labour had been of 'surplus labour' within agriculture and its absorption into the industry, in the classic Lewisian sense (Chakravarty, 1987; Myers, 1958; Sanyal, 2007), there were concomitant debate about the industrial labour policy which, on the one hand, was too 'strict' against the industry to exercise flexibility in employing labour, and, on the other hand, accrued to a very small section of the industrial workforce (Mahalanobis, 1969; Bhagwati & Srinivasan, July 1993).

2 . These characterizations are not limited to just the studies referenced for them and characterizes almost all the literature. The symptomization above is analytical and more a matter of degree.

what has been known as 'India's Dream Run of 2003-08' in terms of the manufacturing sector, something which I will address shortly (Nagaraj, 2013).

Secondly, my characterization also accrues from the fact that the literature on labour and the 90s reforms has been the domain of econometrics and economists, predominantly, and, hence, overtly focused and susceptible to the charges of 'silo-zation' (Goldar, 2000; Goldar, 2004; Basole & Narayan, 2020; Byres, 1998, pp. 20-74)[3]. Moreover, and fourthly, this literature is heavily ideologically polarized, as seen in the debate of "institutionalists" vs. "distortionists" over labour reforms in India. Although this is something which may not be a problem in itself, but becomes so on account of the biases it introduces in such evaluation (Jha & Chakraborty, 2014).

Case in point is the evaluation of the 'infamous' provisions relating to retrenchment of the workers as per the Industrial Disputes Act (Bhattacharjea, 2022; Roychowdhury, 2018). Thus, while on the one hand, evidences abound that it restricts free competition, economies of scale, firm-size, investments, productivity, and, in general, market-based efficiency in labour resource allocation (Ahlwalia, 2002; Panagariya, 2004; Hasan & Jandoc, 2013; Planning Commission, 2002, p. 12; Chaudhuri, 1994); on the other hand, empirics have been marshalled to show that they are not operational on the ground and hardly introduces any constraint upon the employers for retrenchments (National Commission for Enterprises in the Unorganised Sector, 2009, p. 15; Ghosh, 2004/1; Nagaraj, 2007; Papola, 2009; D'Souza, 2008).

These limitations do not, however, take away from the rigour of these studies, testament to their embeddedness in their object of enquiry, their disciplines, and their commitments, and I have utilized them for my own narrative below. However, my characterization also comes from the fact that, today, as a student of Indian labour history, the historiographic field of the impact of reforms on industrial labour reads as too polarized and unreliable, warranting a re-examination of the matter of manufacturing sector labour and the macroeconomic reforms. This also serves as a compilation for more topical and theoretical reasons.

Ever since India liberalized its economy, the Indian manufacturing sector is better understood not merely in national terms but also in international terms of global value chains (Gereffi, 2018). Regardless of what one reads the orientation of the reforms of the 90s as– 'pro-business' or 'pro-market' (Rodrik & Subramaniam, 2004)—one can be sure that they were not read as 'pro-labour' (Sood, Nath, & Ghosh, 2014; Jha, 2016). Ever since, labour historians in India have noted a stark discursive shift in labour politics (Ahuja, 2013; Bhattacharya, 2016).

This discursive marginalization of labour in our case tallies with the global record too (Taylor, Newsome, Bair, & Rainnie, 2015). If not an absolute marginalization, one can definitely read the rendering of labour as a 'dependent' or 'secondary' variable of analysis (Solow, 1990). One may consider the debate of 'low' and 'high' roads of development or the studies which intended to document the effect of globalization in terms of trade linkages and technological development on wage shares (Barnes, 2018; Pyke & Sengenberger, 1992; Goldar, 2022).

Additionally, as the contemporary developments show, labour reforms and deregulation of the Indian industry is back on the agenda (Ministry of Finance, 2025, p. 410; Ministry of Labour and Employment, 2025).

3 . 'Newer developments' such as the Special Economic Zones Act of 2005 or the BOCW Act of 1996 which paved the way for unorganized sector workers welfare, epitomized in the Unorganized Workers Social Security Act of 2008 or schemes such as Targeted Public Distribution System of 1996 and Antayodaya Anna Yojana in 2000.

Moreover, with a decadal record of "Make in India" program with us, initiated to give a fillip to the Indian manufacturing sector growth, doubts are renewed about a structurally stagnant manufacturing sector in India (Nagaraj, 2024; Raghavan, 2024). The following pages elaborate how there is merit in 'looking back in order to look ahead', and in trying to locate labour as a central variable in Indian manufacturing sector development, for the structure that was obtained in the decade of the 1991 reforms contains important lessons. It is because of all these motivations that this exercise in 'location' of labour is due.

In what follows, with the marginalization of the question of industrial labour in the 1991 reforms and the peculiar condition of the historiographic field as my point of departure, I re-examine the 1991 reforms from the vantage point of industrial labour. In doing so, I have followed a historicists approach of limiting myself, wherever possible, to a decennia of the reforms period, as the succeeding period was marked by newer developments in the tripartite industrial relations of India. Additionally, the record of 2003-08, "India' s dream run", was notedly different from the period of 1991-92 to 2002-03 on a number of aggregates, especially of the manufacturing sector, without much of a qualitative difference for the industrial labour market, as we shall see below (Nagaraj, 2013)[4]. In constructing my narrative, given the abundance of methodological-ideological differences in the scholarship, I have tried to reproduce and give adequate references for the benefit of the readers and researchers.

In Section 1, I look into the content, the context, and the impact of the 1991 reforms at a national level, referencing the debate(s) that emerged at the turn of the century. In section 2, I look specifically at the reforms and the manufacturing sector in India, highlighting its longee durée pattern and summarizing what has come to be known as 'structural stagnation' of the Indian manufacturing sector. Within this structural condition of the aggregate sector, in section 3, I try to plot the impact of the reforms on industrial labour through indicators, which are traditionally used by economics to evaluate industrial relations and growth. In conclusion, I look further back than the reforms of the 90s and highlight that, econometrics aside, the question of productivity that is at the heart of the manufacturing sector's structural stagnation may have longer and 'stickier' roots than is generally acknowledged. I also address some issues not adequately dealt with in the course of the paper, but which have been central to the discourse of locating labour since the 90s. This paves the way to pose certain questions and implications on how to consider the causality of sectoral labour conditions and its aggregate performance.

I THE REFORMS AND SOME KEY DEBATES ON ITS DECENNIAL RECORD

The 1991 reforms are attributable to two sets of economic reasons, more than the national and international political instability of the period, relatively speaking. Of the more alarming context, Dr. Manmohan Singh, then Finance Minister, in his budget speech, foregrounded the 'crisis of the fiscal system', which had a number of components.

The fiscal deficit of the central government had been estimated at over 8% of the GDP in 1990-91, vastly over the record since mid-1970s; the internal public debt of the central government had accumulated to over 55% of the GDP and the external debt to 23% of the GDP at the end of 1990-91. Moreover, the foreign reserves were low, sufficient to finance imports for a 'mere fortnight' and the price situation was concerning as inflation (according to the consumer price index) registered

4 . In fact, this period of 'boom' before the 2008 financial crisis hit the world, was characterized more due to a 'debt-led, cyclical phase' of the world economy with which India was more closely integrated following the 1991 reforms. For industrial labour, this period, broadly, showed similar signs as the preceding decennia of industrial reforms (Nagaraj, 2013).

an increase of 13.6% in March 1991, which was concentrated mostly in essential commodities and despite three good monsoons and three bumper harvests in a row (Singh, July 1991; Joshi & Little, 1996; Weiner, 2000).

On the other hand, of the encouraging economic factors, Montek Singh Ahluwalia spelled the process of 'gradual liberalization' which had been initiated in the 1980s, or what is called 'reforms by stealth', reaping industrial growth and demonstrating an improvement in the competitiveness of Indian industry. There were also precedents from the early liberalizing developing countries (Montek Singh Ahluwalia, Special Secretary to the Parliament, 1990; Bhattacharjea, 2022; Panagariya, 2004, pp. 14-22). These two sets of reasons came together to form the macroeconomic reforms whose 'thrust' was the Indian industrial sector, and the intent was to further augment its efficiency and international competitiveness.

In lieu of the same, some of the changes that were initiated were:

1. Industrial licensing, governed by the Industries (Development and Regulation) Act of 1951 hitherto which, regulated by capacity licensing and commodities list, was done away with, with only a few requiring licenses for reasons related to security and strategic concerns, social reasons, problems related to safety and environmental issues, manufacture of products of hazardous nature and articles of elitist consumption. A number of industries, such those producing metallurgical commodities, boilers and steam generating plants, prime movers, electrical equipment, transportation, industrial and agricultural machinery, laboratory equipment, fertilizers, chemicals, auto components, ceramics, carbon and related products, synthetic diamonds, food products, amongst others, were now open for the private sector (Ministry of Industry, GoI, July 1991)[5].

2. The industry was opened up to foreign capital investments which had been governed by the Foreign Exchange Regulation Act of 1973, hitherto. This was done in a phased manner where initially equity investments up to 51% were allowed and then further relaxed to up to 74% and 100% in some cases. The intent was that this would bring in "attendant advantages of technology transfer, marketing expertise, introduction of modern managerial techniques and promotion of exports" (Ministry of Industry, GoI, July 1991). 'Bottlenecks' were to be avoided and automatic approvals for technology transfers were facilitated[6].

5 . The delicensing was further facilitated such that by 2002 only 9 industries needed licenses and the locational restrictions were removed, and by today, this list is nearly nonexistent (Second National Commission of Labour, 2002, p. 162; Bhattacharjea, 2022, pp. 578-9; Panagariya, 2004, p. 23). Further, the reservation of commodities by small sector industry reservation policy of 1967 under the same Industries (Development and Regulation) act of 1951 inhibited the 'free' play of market forces until quite recently, i.e. till 2015, when the reservation list was completely emptied. Under this policy, certain commodities (which reached over a 1,000 products by 1996 when a process of de-reservation started) were reserved for the small-scale industries based on fixed asset values and employee count and large-scale units' capacities were capped over which they had to commit to exporting the surplus (Martin, Nataraj, & Harrison, 2017, pp. 359-60).

6 . As Montek Singh Ahluwalia suggested, and as was announced by Dr. Manmohan Singh in his speech in the provision of constituting a 'special board' to negotiate with large international firms and attract investment (Singh, July 1991), there was even a certain bit of tolerated 'unfairness' in providing 'escort services' to foreign investments to 'project a new policy to the outside world': "… In the short run, the best signal we can give that we are keen on foreign investment is to attract some high-visibility cases of "good foreign investment" speedily and ensure wide publicity for successful foreign investment operations. This can be done administratively without any specific policy changes. We should actively encourage some of our large public sector organisations and also private sector units to seek joint venture collaborations in attractive areas. We should separately approach reputed international firms in areas of our choosing to look to India as an investment possibility." (Montek Singh Ahluwalia, Special Secretary to the Parliament, 1990, p. 17)

3. The government was to review its existing portfolio of public sector investments and enterprises with a 'greater realism' (Ministry of Industry, GoI, July 1991, p. 7) and the relationship between the public and the private sector was to be made 'as commercial as possible' (Montek Singh Ahluwalia, Special Secretary to the Parliament, 1990, p. 8). This was due to a number of reasons undermining the performance of public sector enterprises such as low productivity, poor management and over-manning, technological stagnation, inadequate R&D and, in general, a low rate of return on capital invested. In order to fix these issues, apart from the de-reservation of industries from the public sector, this entailed partial or complete disinvestment, and allowing competition from the private sector (Ministry of Industry, GoI, July 1991, pp. 6-8)[7].

4. The Monopolies and Restrictive Trade Practices Act of 1969 (MRTP Act) was amended, whose objectives lay in restricting concentration of economic power by control of monopolies and the prohibition of unfair trade practices. Of its first objective, since it restricted 'economies of scale', the pre-entry scrutiny and approval of the government of the 'MRTP companies' was discontinued for the purposes of expansion, establishment of new undertakings, mergers, amalgamations and acquisitions. Of the latter, i.e. of curbing unfair trade practices, easing imports and the attendant pressures from there along with the competition from domestic players was expected to take care of the same (Ministry of Industry, GoI, July 1991, pp. 8-9; Montek Singh Ahluwalia, Special Secretary to the Parliament, 1990, pp. 10-12)[8].

5. In sync with the intent to shift from a regime of quantitative restrictions to a price-based mechanism, which was considered "a superior instrument of resource allocation", as Dr. Manmohan Singh said in his speech, there was to be a gradual shift from licensing controls to tariff-based controls and the average tariff levels were to be reduced in a phased manner for capital, intermediate and consumer goods, disproportionately (Montek Singh Ahluwalia, Special Secretary to the Parliament, 1990, pp. 12-15; Singh, July 1991, pp. 4,7).

By the turn of the century, a vigorous debate emerged over the decennial record of the macroeconomic reforms on a number of counts. To talk merely national aggregates, let us first consider the case of the growth rate of India's GDP. The critics maintained that the growth rate of Indian GDP, applauded as an 'emerging giant' for having a higher growth rate than other nations in the global economy (Eichengreen, Gupta, & Kumar, 2010), actually 'took off' in the 1980s and had much less to do with the 1991 reforms, or that the average rate of growth between 1991-92 and 2001-02 was merely ~5.5% (Rodrik & Subramaniam, 2004; Ghosh, 2004/ 1, p. 2).
On the other hand, the apologists maintained that this cynicism was unfounded, as the pattern of growth of the Indian GDP in the 80s was unsustainable (leading to the fiscal crisis of 1991), much fluctuating and that the impact of the reforms had to be studied from 1992-93 onwards (Panagariya, 2004). The sobering analysis of Dr. Ahluwalia, while siding with the latter camp methodologically, drew attention to the higher 6.7% growth rate in the first five years and 5.4% rate in the next five years (1992-93 onwards), making it 'slightly better' at ~6% for the decennial and acknowledged that it was below the 7.5% growth rate targeted (Planning Commission, 2002, p. 2; Ahlwalia, 2002).

7 . Most symptomatic of the public sectors sub-par performances were the policy of taking over of 'sick units' from private sector for which Mr. Ahluwalia suggested a change in the legal status of PSUs which is distinct from the 'government' covered under the article 12 of the constitution in the broader definition of the state. His suggestions involved rethinking the cases of ITDC, Indian Airlines and Air India and greater linkages of productivity and wages (Montek Singh Ahluwalia, Special Secretary to the Parliament, 1990, pp. 7-9)

8 . The Competition Act of 2002 was further brought in for the latter purpose of restricting unfair trade practices.

Year	GNP Growth Rate (at 1993-94 Prices) (2)	5 Year avg. of (2)	Industry[9] Growth Rate (at 1993-94 Prices) (4)	5-year avg. of (4)
1981-82	5.8	4.94	7.4	5.98
1982-83	2.7		2.9	
1983-84	7.5		8.7	
1984-85	4.2		6.2	
1985-86	4.5		4.7	
1986-87	4.1	6	6.2	7.98
1987-88	3.6		7.0	
1988-89	10.1		8.6	
1989-90	6.7		10.7	
1990-91	5.5		7.4	
1991-92	1.1		-1.0	
1992-93	5.1	6.78	4.3	8.04
1993-94	5.9		5.6	
1994-95	7.2		10.3	
1995-96	7.5		12.3	
1996-97	8.2		7.7	
1997-98	4.8	5.32	3.8	4.85
1998-99	6.4		3.8	
1999-2000	6.2		5.2	
2000-01 (QE)	3.9		6.6	

Source: Economic Survey, 2001-02

On the 'fiscal discipline', the record was, again, ambiguous. Though the BOP crisis had stabilized by 1993-94, combined fiscal deficit was again back over 9% in 2000-01 (Ahlwalia, 2002, pp. 69-71)[10].

9 . Manufacturing, Construction, Electricity, Gas and Water Supply; Of Real GDP at Factor Cost

10. The fiscal deficit of the central government had been reduced from 6.6 in 1990-91 to 5.1 in 2000-01 as ratio to GDP in current prices (Ministry of Finance, 2002, p. Table 2.1)

The foreign reserves had jumped up to over $50 bn by March 2002, enough to provide for over 8 months of import, and FDI had reached up to 0.5% of the GDP from 'virtually nothing' in 1991-92 (Second National Commission of Labour, 2002, pp. 171-72; Ahlwalia, 2002, p. 75). External debt had reduced from 5.5% of the GDP in 1990-91 to 2.8 in 2000-01, at historical rates of exchange, but the total outstanding liabilities (internal and external) had gone up from 55.3% to 55.7% of the GDP in the same period (Ministry of Finance, 2002, p. Table 2.3).

On the shift from 'quantitative restrictions' on imports to the 'tariffs' regime which was intended to be lowered, the weighted average import duty rates had gone from 72.5% in 1991-92 to 29% in 2002-03, but they still remained the highest amongst the developing nations (Planning Commission, 2002, p. 16)[11].

Control of inflation was a distinct achievement of the reforms and by December 2001, the inflation, according to the consumer price index, was ~5% (Second National Commission of Labour, 2002, p. 171). On the contrary, the export performance was a sure miss and by 2001-02 India's share in world exports was at 0.5% with a widening trade gap of Rs. -27,308 cr in 2001-02 from the Rs. -3810 cr in 1991-02 (also, in part, attributable to the devaluation of the Indian rupee). The CAGR of Indian exports in US $ (Bn) was at 7%, much lower than the double-digit rates of China, Thailand, South Korea, Mexico, Malaysia, Philippines and Singapore, and the bulk of it was concentrated in agricultural and primary sector exports (Ahlwalia, 2002, p. 75; Second National Commission of Labour, 2002, pp. 175-76; Klein & Palanivel, 2002).

Major Macroeconomic Indicators

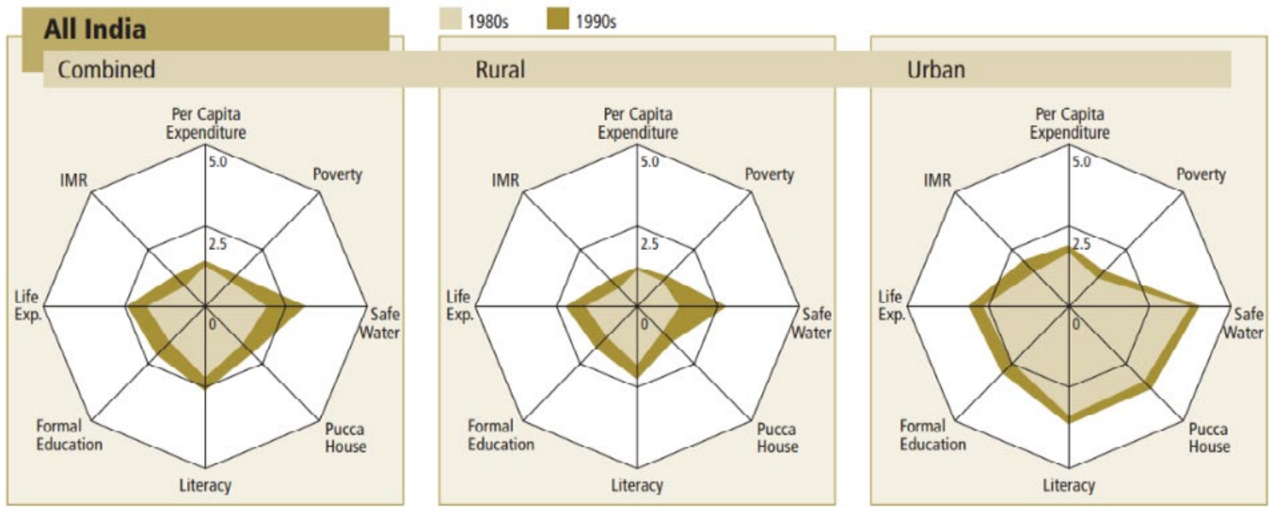
		As percentage of GDP					
	Growth of GDP % p.a.	*Combined fiscal deficit*	*Current account deficit*	*Gross Savings*		*Gross capital formation*	
				Private Sector	*Public Sector*	*Private Sector*	*Public Sector*
1990-1	5.6	9.4	3.1	21.99	1.1	14.7	9.3
1991-2	1.3	7.0	0.3	20.1	2.1	13.1	8.8
1992-3	5.1	7.0	1.7	20.2	1.6	15.2	8.6
1993-4	5.9	8.3	0.4	21.9	0.6	13.0	8.2
1994-5	7.3	7.1	1.0	23.2	1.7	14.7	8.7
1995-6	7.3	6.5	1.7	23.1	2.0	18.9	7.7
1996-7	7.8	6.4	1.2	21.5	1.7	14.7	7.0
1997-8	4.8	7.3	1.4	21.0	1.3	16.0	6.6
1998-9	6.5	8.9	1.0	22.6	-1.0	14.8	6.6
1999-2000	6.1	9.4	1.0	24.0	-0.9	16.1	7.1
2000-1	5.4	9.6	0.5	25.1	-1.7	15.8	7.1

Source: Economic Survey 2001-2, Ministry of Finance, Government of India, New Delhi
Reproduced from CITATION Ahl02 \ p190 \ 1003 (Ahluwalia M.S., 2002, p.190)

11. This was partly due to the ruling by the World Trade Organization dispute panel based on a complaint brought by the United States against India for having quantitative restrictions on manufactured consumer goods and agricultural products, which Montek Singh Ahluwalia blamed the Small Sector Industries reservations protection for (Ahlwalia, 2002, pp. 73-74)

In terms of the national human and social developmental indicators, the debate was even more rigorous, conducted over issues of methodology and conflicting trends. In this regard, too, a major trope was whether changes were to be attributed to the impetus of the reforms or whether they showed 'secular' trends since the 80s. Thus, though poverty alleviation was indeed a result, it was fiercely debated and attendant with a rise in inequality, with the income of the top 1% reaching levels comparable to the shares in 1920s and 30s (Planning Commission, 2002, p. 2; Banerjee & Piketty; Datt & Ravallion, 2002; Deaton & Dreze, 2002). Similarly, although the expenditure of the central and state governments in the social sector increased in the period between 1990-91 and 1998-99, along with the per capita expenditure, the percentage share in the GDP was almost stagnant and a need for more expenditure and ensuring better resource allocation and efficiency was expressed (Dev & Mooij, 2002).

The World Bank and the National Human Development Report of 2001 noted that there were marked improvements in indicators related to consumption, housing, sanitation, health, education, etc., but the critics also noted nutritional impoverishment and rising food insecurity (Patnaik, 2004; The World Bank, 2003; Planning Commission, 2002).



Reproduced from CITATION Pla021 \ p12 \ 1003 (Planning Commission 2002, p.12)

Similarly, though there was noted to be a significant impact of the reforms in social transformation and upliftment of India's so-called backward communities, such as its SCs and STs in terms of their shares in GVA, workers employed, and rise of an entrepreneurial class amongst them or in terms of enabling upward social mobility, there were also concerns expressed about the rise of regional disparities due to the economic reforms, undermining federal structures and rekindling secessionist threats (Weiner, 2000; Panagariya & Dehejia, 2013; Hnatkovska & Lahiri, 2013).

Typical of the tenor of the debates is the case of educational achievements, which some lauded as an achievement of the reform (The World Bank, 2003, p. 1), some noted them as not impressive enough (Weiner, 2000, p. 284) and some compared to the record of other national economies, calling them as abysmal for India (Ahlwalia, 2002, p. 85).

Thus, though there emerged a rather strong debate on all aspects conceivable over the impact (or the lack thereof) of the reforms, with ideological proclivities playing as important a part as methodological issues and with competing analyses, reference points and evidences, there was a curious consensus of concern that had also emerged over the industrial manufacturing sector record in the period of reforms, across camps. This has persisted ever since and words like ‘constraints’ and ‘stagnation’ have come to describe the Indian manufacturing sector, which, as is worth reiterating, was the intended ‘thrust’ of the reforms (Planning Commission, 2002, p. 4) (Second National Commission of Labour, 2002, p. 170) (Ghosh, 2004/ 1, p. 7) (Panagariya, 2004, p. 7) (Nagaraj, 2003) (The World Bank, 2003, p. xi) (Gupta, Hasan, & Kumar, 2010) (Bhagwati & Panagariya, 2013, p. 2) (Joumard, Sila, & Morgavi, 2015) (Nagaraj, 2022) (Rajan & Lamba, 2023, p. Ch. 2) (Panagariya, 2024). In the next section, we will look at the contours of the consensus that emerged while the impact of the manufacturing sector reforms were being evaluated.

I THE REFORMS AND THE INDIAN MANUFACTURING SECTOR: STRUCTURAL STAGNATION?

At the closing of a decade since the reforms were initiated, the Indian manufacturing sector was showing signs that, even today, are used to refer to its ‘stagnant’ and ‘disappointing’ performance (Planning Commission, 2002, p. 4; Second National Commission of Labour, 2002, pp. 165-70; Ahlwalia, 2002, p. 76; Panagariya, 2004, p. 27; Ghosh, 2004/1) (Nagaraj, 2003)[12] ,[13]. These signs has been continuously flagged ever since as concerning, so much so that the ‘Indian path of development’ has become an occasion to rethink certain orthodoxies relating to the role of manufacturing in developmental economics itself (Gupta, Hasan, & Kumar, 2010; Bhagwati & Panagariya, 2013, p. 2; Joumard, Sila, & Morgavi, 2015; Kochhar, Kumar, Rajan, Subramanian, & Tokatlidis, 2006; Subramanian & Amirapu, 2015; Nagaraj, 2022; Rajan & Lamba, 2023) (Department of Industrial Policy and Promotion, Ministry of Commerce and Industry, 2011; Roy, 2007). What were, or have been, its main indicators?

Firstly, keeping aside the national comparisons with economies such as China, the other East Asian ‘tigers’, and the developed nations, this was symptomized in the two rates of growth that we obtained of the industrial and manufacturing sector in the period between 1992-2002. Whereas for the period of 1992-1997, the growth rate of the industrial sector was at 8% averagely, per annum, going up to ~12% in 1995-96 and to 14.9% in the manufacturing sector, specifically; it went down to a 4.5% average for the period of 1997-2002, with manufacturing sector growth rate declining to as low as 1.5% in 1997-98. Cumulatively, this came down to 6.4% annual growth rate of the industrial sector between 1991-2001, merely 0.4% over of the record of 1981-91, reflecting a stagnating trend since the 80s (Ahlwalia, 2002; Panagariya, 2004; Nagaraj, 2003; Second National Commission of Labour, 2002)[14]. In fact, until 2016, the growth rate, depending on whether one took the Annual Survey of Industries or the Index of Industrial Production as reference, had been on a trend basis of 7 or 8 percent respectively (Nagaraj, 2022, p. 119)[15].

Then, the share of manufacturing contribution to GDP stagnated at ~15 to ~17 percent in the period between 1991-2002, and it has sustained as such since, until rather recently. Our national aspirations,

12. Compare also to the ‘stagnation’ of the Indian industry which was its characteristic in the pre-reform period (Ahluwalia I. , 1985)

13. Comprised of the industrial sector by broad economic activity minus mining and quarrying, electricity, gas and water supply and construction (Second National Commission of Labour, 2002, p. 167)

14. In fact in terms of some metrics, some commentators found the record of 1992-2002 lower than 1981-91 (Nagaraj, 2003).

15. As per the Economic Survey of 2023-24, the manufacturing sector grew at 5.2% in the decade of 2014-24 in terms of GVA in constant prices (Department of Economic Affairs, Ministry of Finance, 2024, p. 348).

however, have been of ~25% of contribution to the GDP (Second National Commission of Labour, 2002, pp. 167-8; The World Bank, 2003, p. xi; Nagaraj, 2003, p. 3707; Ministry of Commerce and Industry, 2011, p. 1; Nagaraj, 2022, p. 120)[16]. Relatedly, the share of employment of the manufacturing sector to the total employment had remained more or less stagnant, fluctuating between ~10 to ~13% since 1980s till early 2000s according to both census and NSSO data (Roy, 2007, pp. 2-3)

Another common and crucial indicator cited to establish a quarter century long stagnation of the Indian manufacturing sector, whose germs were identified in the early years of the twenty first century, was India’ s goods and merchandise exports (Gopinath & Lahiri, 2019; High Level Advisory Group to Minister of Commerce and Industry, 2019; Nagaraj, 2022). This was capped at merely ~0.5% of the total world goods and merchandise exports for India, and there was a marked decline of the share of manufacturing sector commodities in India’s exports, with a rise of agriculture and services sector (Planning Commission, 2002, p. 13; Second National Commission of Labour, 2002, pp. 173-78; Ahlwalia, 2002, p. 75; Nagaraj, 2003)[17]. The problem in this was not solely of the lack of adequate growth, but also that the dominant exporting commodities—textiles and readymade garments, chemicals and related products, leather and related products, gems and jewelry—were from labour intensive sectors and didn’t adequately reflect the diversified base of Indian manufacturing (Ahlwalia, 2002, pp. 75-6; Panagariya, 2004; Nagaraj, 2003, p. 3711; Second National Commission of Labour, 2002, p. 177)[18].

Though it is commonsensical that aggregates may not be the best indicators to determine the health of any economic phenomenon, the above aggregate indicators have come to be associated as watch-words or rather, ‘watch-figures’, to determine the health of the Indian manufacturing sector across a quarter of a century, by now. However, within these aggregates dwelt, and still do, nuances which have been able to forge a consensus of concern across contending schools of thought. In what follows, we attempt plotting labour at the center of this structural condition.

16. In terms of the percentage share of GVA by economic activity from 2011-12 till 2022-23 at constant and current prices, the share of the manufacturing sector has been between ~14% to ~17% constantly (source: National Account Statistics, 2024).

17. Ironically, at the time of writing this article, India recorded a ‘historic high’ of exports of goods and services in 2023-24, marking a 67% high since 2013-14 (Ministry of Commerce and Industry, 2025). However, the recent Economic Survey didn’t find much occasion to celebrate the share of goods and merchandise exports in the total exports, drawing more attention to the trade deficit and with appeal to boost domestic ‘growth levers’ in the face of ‘the passing of the era of rapid world trade growth’ (Ministry of Finance, 2025, p. viii). The 1.8% share of India in the World Exports of Commodities achieved in 2022 may be considered a ‘secular’ development of the tendency that begins at 0.5% in 1990 and grows to 0.7 in 2000, 1.0 in 2005, 1.5 in 2010, 1.6 through 2015 and 2020 and then 1.8 in 2022 (Ministry of Finance, 2025, p. Table 6.5).

18. Being from the labour-intensive sectors which were more concentrated in the unregistered segments and/or in the small-scale industries also meant that they lacked scale, quality, and adequate competitiveness if one considered reservation and protection through import duties. They were also not strongly integrated in the credit markets.

Indian GDP and its Components, 1980-2001 (at factor cost) (In Constant Prices)

(Base Year – 1993-94)

(In INR Cr)

Year	Industry (% GR)	Manufacturing (% GR)	All Sectors (% Share of Manufacturing)
1980-81	70687	55436	401128 (13.82)
1981-82	76916 (8.81)	59881 (8.02)	425073 (14.09)
1982-83	82494 (7.25)	63859 (6.64)	438079 (14.58)
1983-84	89786 (8.84)	70306 (10.10)	471742 (14.90)
1984-85	95552 (6.42)	74923 (6.57)	492077 (15.23)
1985-86	99906 (4.56)	77871 (3.93)	513990 (15.15)
1986-87	107999 (8.10)	83290 (6.96)	536257 (15.53)
1987-88	115410 (6.86)	89374 (7.31)	556778 (16.05)
1988-89	126708 (9.79)	97263 (8.83)	615098 (15.81)
1989-90	140865 (11.18)	108703 (11.76)	656331 (16.56)
1990-91	150383 (6.67)	115282 (6.07)	692871 (16.64)
1991-92	148555 (-1.22)	111075 (-3.65)	701863 (15.83)
1992-93	154631 (4.09)	115669 (4.13)	737792 (15.68)
1993-94	164569 (6.43)	125493 (8.49)	781345 (16.06)
1994-95	183221 (11.33)	140491 (11.96)	838031 (16.76)
1995-96	206863 (12.90)	161424 (14.91)	899563 (17.95)
1996-97	223766 (8.17)	177013 (9.67)	970082 (18.25)
1997-98	230580 (3.04)	179689 (1.51)	1016595 (17.67)
1998-99	237958 (3.20)	184579 (2.72)	1082748 (17.05)
1999-2000	247596 (4.05)	191926 (3.98)	1148368 (16.71)
2000-01	263740 (6.53)	206189 (7.43)	1198592 (17.20)
2001-02	272918 (3.48)	213681 (3.63)	1267833

Source: Handbook of Statistics on Indian Economy, RBI – 2004

I 3: THE REFORMS AND LABOUR

The most controversial aggregate result of the reforms for the manufacturing sector labour was what came to be known as "jobless growth" (Jha, 2016; Kochhar, Kumar, Rajan, Subramanian, & Tokatlidis, 2006, p. 4; Goldar, 2004; Planning Commission, 2002, p. 145; Bhalotra, 1998; Uchikawa, 2014, p. 8-10). As the 10th Planning Commission noted, there was a marginal decrease in population growth per annum, from 2% between 1983 to 1993-94 to 1.95% between 1993-94 to 1999-2000; the labour force increased by 1.31% in the period between 1993-94 and 1999-2000 as compared to 2.43% between 1983 to 1993-94, but the pace of employment growth slowed down from 2.7% between 1983 to 1993-94 to 1.07% between 1993-94 to 1999-2000 at the all-India level. On the other hand, the growth of the manufacturing sector employment across registered and unregistered sectors slowed from 26.39% between 1983 to 1993-94 to 16.54% in 1993-94 to 1999-2000 (Planning Commission, 2002, pp. 141, 160). This came down to an average per annum growth rate of 2.58% for the entirety of the manufacturing sector and at 0.87% for the registered and 2.95% for the unregistered manufacturing sector (Ghosh, 2004/ 1, p. 16). Relatedly, the unemployment rate, measured on the current daily status (CDS) basis, rose upto 7.32% in 1999-2000 after dipping to 5.99% in 1993-94 from 8.3% in 1983, further calling into question the impact of reforms (Planning Commission, 2002, pp. 141,159-63)[19].

In juxtaposition with the rate of growth of the manufacturing sector, despite reservations, this signaled a weakening employment elasticity of output growth, which came down from an all-India level of 0.52 for 1983 to 1993-94 to 0.16 for 1993-94 and 1999-2000, and from 0.38 in the former period to 0.33 in the latter for the manufacturing sector specifically (Planning Commission, 2002, p. 163).

There was also a curiously high 9.85% growth rate in marginal workers participation rate and a 11.98% growth rate of marginal workers between the 1991 census and 2001 census, against a meagre 0.61% growth rate in marginal workers participation rate and 2.78% growth rate in marginal workers, between 1981-1991. At the same time, the 'main worker' growth rate declined to 0.81 in 1991-2001 from 2.34 in 1981-1991, and the participation rate recorded a negative 1.11% growth rate in 1991-2001 than 0.18% between 1981-1991 (Planning Commission, 2002, p. 161). As the Arjun Sen Gupta led Commission report said in 2009, rather critically, it seemed as if the "available evidence suggests that the higher growth in the post-reform period did not translate into the same rate of improvement in the quantity or quality of employment" (National Commission for Enterprises in the Unorganised Sector, 2009, pp. 15-16).

This was the beginning of what has come to be known as the "informalization of the formal sector" which was, as the NCEUS Commission Report defined, "where any employment increase consists of regular workers without social security benefits and casual or contract workers, again, without the benefits that should accrue to formal workers"—noting a 'substantial restructuring' of Industrial relations in the formal sector, which already constituted a meagre 8.5% of the total employment of the Indian economy (National Commission for Enterprises in the Unorganised Sector, 2009, pp. 12-15)[20].

19. For a discussion on the employment-unemployment methodological debates within the tenth Planning Commission and its proximate committees, see (Krishnamurty & Raveendran, 2008).

20. This, one must note, occurred when the share of the registered sector in the total value added of the Indian economy by the manufacturing sector rose from 53.7% in 1980-81 to 62.1% in 1995-96 while the unorganized sector declined proportionately in the same period (Second National Commission of Labour, 2002, p. 56).

Relatedly, though not so immediately apparent, the issue of productivity of the manufacturing sector was being cautioned by the economists and there was a distinct slackening of the total factor productivity growth (TFPG) for the Indian manufacturing across capital, intermediate, and consumer goods segments. If nothing else, the record of 1990s was not impressive, as it was below the TFPG in the 80s and, concomitant with the aggregate growth rate of manufacturing, it highlighted a concerning slowdown since the 1995-96 period (Balakrishna, Pushpangadan, & Babu, 2000; Das, 2003; Goldar, 2004; Balakrishnan, 2004). More important for us, however, is that there was a consensus that the labour productivity was on the rise since the 1990s. This takes into account the methodological debates amongst the contributors of the time in calculating the TFPG, given its a priori requisites and the difficulty of their application to the context of India[21]. Notably, labour productivity is seen as the most reliable indicator of productive consumption and often inverse relation to employment elasticity, in as much as there is a distinct rise in capital intensity of production. (Sundaram, 2001, p. 936; Balakrishnan, 2004; Balakrishna, Pushpangadan, & Babu, 2000). Unsurprisingly, the Incremental Capital Output Ratio (ICOR) increased to 18.37 in the ninth plan period of 1997-2002 from 6.67 in the eighth plan period of 1992-97, signaling that "capital substituted labor" (Planning Commission, 2002, p. 141)[22]. Alternatively, the labour to capital ratio, as Basole and Narayan have calculated, was such that by 1998, 11 jobs could be sustained for Rs. 1 cr, whereas the same amount could sustain 50 to 60 jobs in the early 1980s (constant at 2005 rupees) (2020, p. 38).

The Second Labour Commission in its report hinted that 'jobless growth' may be a matter of 'job-loss' growth, reiterating the restructuring of the industrial relations in the country, generally speaking, initiated by the reforms (Jha & Yeros, 2021, p. 31). Thus, as against the pre-reform period of 1981-90 when 402.1 mn man-days were lost due to a number of reasons; in 1991-2000 period, the number dipped to 210 mn, out of which 129 mn man-days were lost due to industrial lock-outs rather than strikes which mounted a cost of merely 80.2 mn man-days in the decade (Second National Commission of Labour, 2002, p. 247). According to the Commission,

> *"… conditions of employment have been uncertain, and many workers do not seem to be willing to go on strike or resort to action that may put their jobs in jeopardy. But employers seem to have acquired more confidence… and the agreements that are arrived at too are more often in favor of the management. This reflects a changed situation".*

Though the commission lamented the availability of data, it reported evidence of a number of workers losing jobs, unfair practices in meting out the Voluntary Retirement Scheme (under which lakhs of workers were retrenched), and the increasing marginalization of workers collectives and trade unions. Additionally, it also noted that the tilt of the state labour adjudication and conciliation machinery, central to the tripartite model of industrial relations, had shifted in favor of the 'employers' (Second National Commission of Labour, 2002, p. 247).

On the higher skilled employment front, the FDI liberalization led to a mammoth increase in Mergers and Acquisitions by the international MNCs which was contrary to the expectation of a rise in greenfield and brownfield project and led to layoffs and disenfranchisement of the R&D and marketing-based

21. ˇ A significant debate emerged on the question of productivity and its measurement in the early years of the twenty first century and the impact of the reforms on the same. Whereas mostly there was a consensus amongst the scholars (cited above), the study by B. Unel for International Monetary Fund found an increase in the productivity trends across various indicators (Unel, 2003). This was contested in (Goldar, 2004) (Rodrik & Subramaniam, 2004; RBI, 2004, p. 97)

22. Though mostly the studies on this aspect related to the 'registered' manufacturing sector, some studies argued for a rise in the manufacturing sector across both registered and unregistered segments in the period (Virmani, 2004)

work, and also of the entrepreneurs. The cases of Coca Cola, Peter England, Pepsi, McDonalds, TCL, Pizza Hut, Dominos, Nestle, Unilever, and Lafarge became symptomatic of how MNCs would come in, 'rationalize' production, and 'siphon' off the value addition gains abroad without contributing to the national economy (Second National Commission of Labour, 2002, pp. 182-194)[23].

The above insight on the marginalization of labour within the manufacturing industry is borne also by considering the situation of wages. Concomitant with the two 5-year period aggregate tendencies of the decennia of reforms, real wages of the organized manufacturing sector workers rose from 1983-1996, from whereon it declined till 2002-03, reversing to the extent that they caught up to the 1995-97 mark only after 2010s (Basole & Narayan, 2020, p. 38)[24]! On the whole, since 1992-93 till 2004-05, the growth in real wages of the workers was at a 'dismal' rate of merely 0.27%, as the Challenge of Employment Report implied (National Commission for Enterprises in the Unorganised Sector, 2009, p. 16).

Another symptom that developed in the late 1990s, and had a bearing for the structural condition of the manufacturing sector by reasons of 'aggregate demand', was the growing divergence in the real wages of the workers and the managers or other supervisory staff in the organized manufacturing sector (Basole & Narayan, 2020, p. 39; National Commission for Enterprises in the Unorganised Sector, 2009, p. 16).

More supportive of our argument above are the declining wage share in rising output and labour productivity of the Indian manufacturing sector, measured and affirmed across various studies since 1980s, but which accelerated in the 90s (Shastri & Ramana-Murthy, 2003; Basole & Narayan, 2020; Goldar, 2022; Bhattacharjea, 2022, pp. 584-85; Krishna, et al., 2022, pp. 91-2)[25]. These declines or the dismal growth rate of real wages and of the wage share within the manufacturing sector has often been interpreted as linked to the tendency of 'market welfarism' in developing economies where it is assumed high wages will be in inverse relation with employment growth and, by proxy, of decline in absolute poverty; and vice versa. This, however, was hotly contested at the time and was at the heart of the debate between "distortionists" and "institutionalists" over the relation between labour indicators and economic growth (Jha & Golder, 2008/1; Ghosh, 2004/ 1; Nagaraj, 2001; Goldar, 2000).

It must be noted that apart from being grounds for another squabble between contending schools of thought over the labour market (de)regulation, the remaining reasons for such a record of wage variables of labour within the manufacturing sector were to be found in the skewed nature of demand emanating from the Indian domestic market with agricultural or primary sector slowdown and decline of demand from the population engaged thereby and a rise in demand by the high income groups of products such as automobiles, white goods, etc. which are, on the average, more towards capital intensity (Nagaraj, 2003, pp. 3712-13; National Commission for Enterprises in the Unorganised Sector, 2009, pp. 15-16); the decline of the bargaining powers of the trade unions and workers collectives' and the increased use of contract workers (Basole & Narayan, 2020, p. 36; Goldar, 2022, p. 139).

23. There were also contrary examples of Hero, Amul, etc. which grew in the face of trade liberalization, but they were marginal to the dominant tendency of 'takeovers'.

24. On the other hand, there was an increase of nearly 2.5 to 3.5% per annum in the real wages of workers from 1993-94 to 1999-2000 along with an increase in earnings per capita in the same period according to the NSS Employment-Unemployment Surveys, 54th and 55th Round, which covered a broader category of workers engaged in both, registered-unregistered segments across various sectors (Sundaram, 2001).

25. Across all the studies, there is an aggregate decline of the income share of labour against manufacturing sector growth, across all indicators, with inconsequent or marginal changes in between.

I CONCLUSION

The larger trope that guided the evaluation of the impact of reforms on various variables may also be reiterated with regards to evaluating the impact of the reforms on manufacturing sector labour conditions. Thus, the question goes whether the state of the manufacturing sector labour at the turn of the century was a result of the reforms, or whether the factors influencing the conditions had their genesis prior to the reforms?

The words of Dr. Manmohan Singh in his budget speech of July 1991 hold almost a prescient value when he noted and said that,

> *"Over the years, the Indian economy has witnessed a disturbing shift towards greater capital intensity in production. This has led to distortion and avoidable hardship in cases where labour is replaced, or employment potential reduced, by resort to capital intensive methods of production, even in cases where such a shift is not justified on other economic and technical considerations… while there can be no compromise with imperatives of technological upgradation and continuous modernization, the tendency towards greater capital intensity must be checked" (Singh, July 1991, p. 24)*

It was not checked[26]. Similarly, the rise of contractualization of employees was also a problem that we had already encountered before, and tried to address with the promulgation of the Contract Labour (Abolition and Regulation) Act of 1970, or the weakening of collectivization and the bargaining prowess of labour. What did change, however, was the dominant site of these problems, as the public sector declined and the private sector in manufacturing picked up (Nagaraj, 1984; Bharadwaj, 2023; Parry & Ajay, 2020, pp. 3-36. The state was now in a better position within the tripartite schema of industrial relations, as a mediator, but, as the Second Labour Commission noted, there was a noted marginalization of the interests of labour within the industrial relations machinery vis-à-vis the employers.

Within these broad contours, there were other issues which emerged and which have not been adequately captured in this article above, such as that of feminization of the workforce, or that of informalization of the manufacturing sector and of its employment. However, there is a rather strong body of literature that demonstrates that these are far from empowering signs and were related to the contours of marginalization highlighted above, missing the mark of structural transformation in the favor of manufacturing and facilitating a rise of surplus labour within the non-farm sector (Hirway, 2011; Jha, 2016; Uchikawa, 2014, pp. 1-22; Jha & Yeros, 2021; Roy, 2007; Ghosh, 2004/ 1, p. 14).
Though it may be beyond the purview of this paper to formulate the exact nature of relationships between the marginalization of labour, obtained through the indicators above, and the aggregate performance of the manufacturing sector in the preceding section, or even the relationships between the indicators, such as employment growth slowdown and employment elasticity, and ICOR or the rising capital intensity which was the tendential impetus for rising labour productivity, and wage-based indicators above—it may be safe to say, at the least, that labour underwent a significant marginalization in the manufacturing sector on account of the reforms.

26. This was even noted by Isher Ahluwalia in her seminal work but not developed as a major concern afflicting industrial stagnation, perhaps a testament to it not being a major issue of concern or perhaps owing to her ideological bent (Ahluwalia I. , 1985, pp. 144-45, 166-73).

Interestingly, by 2015, when Indian labour productivity was becoming a matter for concern by global comparisons, the capital-intensive industries, which accounted for the bulk of Indian manufacturing growth since 1992-2002, were already showing signs of negative labour productivity and were even marred by disharmonious industrial relations (Joumard, Sila, & Morgavi, 2015, p. 6; Krishna, et al., 2022, pp. 138-54; Barnes, 2018). Notably, the labour productivity in the labor-intensive industries had risen since 2003 without a broader change in the tendential impetus provided by a rising capital intensity (Krishna, et al., 2022, pp. 138-54; Nagaraj, 2013). Though it is also beyond the purview of this paper to examine these shifts since 2008 in detail, we will conclude by way of asking a simple question and an informed implication.
The question goes—can we read the structural stagnation of the manufacturing sector in Indian economic growth, the decline and negative growth rate in labour productivity in capital intensive manufacturing sectors (since 2008), and the low labour productivity in India, in comparison with other countries, as an effect of the marginalization of labour within the manufacturing sector that the reforms initiated, in both productive and distributive senses? In lieu of a response, allow me to present the words of Robert Solow, as a suggestive affirmation to my question,

> *"On the whole, scholars enjoy confuting common sense. They like to show that what 'everyone thinks' is all wrong. You can see this happening in subjects as diverse as history and astronomy… Maybe even more so in economics…*
>
> *There is an important difference, however, between natural sciences and social sciences. It does not matter what the person in the street believes about the nature of condensed matter or the movements of heavenly bodies… In economics, however, the common-sense beliefs of businessmen, bankers, workers, managers, consumers and speculators affect how they interpret what they see and therefore affect what they do. Common-sense beliefs about the economy are therefore an important influence on the behavior of the economy…*
>
> *One important tradition within economics, perhaps, the dominant tradition right now… holds that in nearly all respects the labour market is just like other markets. It should be analyzed in much the same way that one would analyze the market for any perishable commodity, using the conventional apparatus of supply and demand. Common sense, on the other hand, seems to take it for granted there is something special about labor as a commodity, and therefore about the labour market too…. I want to make the case that labour market really is different. In particular, I claim that it cannot be understood without taking account of the fact that participants, on both sides, have well-developed notions of what is fair and what is not." (Solow, 1990, pp. 1-3). (Emphasis mine).*

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