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**AN ANALYSIS UPON EMPLOYMENT GENERATION
AND ECONOMIC POLICIES OF LIBERALIZATION,
PRIVATIZATION AND GLOBALIZATION**

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An Analysis upon Employment Generation and Economic Policies of Liberalization, Privatization and Globalization

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Abstract – The Indian economy has entered a phase of high growth in the recent years, after a long period of low growth. Since economic growth itself is not sufficient to achieve economic development, the concern of policy makers seems to have shifted towards making the growth inclusive – a process wherein employment is at its core. The Indian economy has entered a phase of high growth in the recent years, after a long period of low growth. Since economic growth itself is not sufficient to achieve economic development, the concern of policy makers seems to have shifted towards making the growth inclusive – a process wherein employment is at its core. The available evidence, however, tends to indicate that the high growth has been accompanied by low employment growth in the organised manufacturing sector.

Trade liberalization refers to the removal of government incentives and restrictions from trade between nations. Rapidly increasing flows of goods and services across national borders have been the most visible aspect of the increasing integration of the global economy in recent decades.

A review of the current debate on the impact of globalization on employment, poverty and inequality in developing countries reveals that the predictions of the given trade theories that increased trade and FDI consequent to globalization would result in higher employment in labour surplus economies has not always proved correct. Even in the developed countries, there is growing unease due to doubling of global labour force because of the entry of BRICS into the trading system.

This study presents a method for improved estimation of measures of firm dynamics and job creation. We use employee flow information to re-establish broken links between records of the same firm, and to identify relationships between firms in case of mergers, take-overs, split-offs, and other forms of restructuring. The method is developed on the basis of a linked employer-employee data set covering all private employment in India.

INTRODUCTION

Employment has always featured as an element of development policy in India. The priority and attention it has received in development plans have, however, varied from time to time and so have the approaches and strategies as well as policies and programmes for employment generation. When India embarked on a strategy of industrialization-based development in 1950's, employment was not perceived to be a major issue in so far as a relatively faster growth of economy as envisaged in the consecutive Five Year Plans was expected to generate enough employment, particularly in industry, to take care of a small backlog of unemployment at the time and increase in labour force that was expected to be relatively modest. Ensuring a regular and adequate supply of suitably skilled workforce was conceived to be a matter of greater

concern. Improving the quality of employment, in terms of reasonable and rising level of wages and a minimum measure of social security against the common risks of work and life was, however, considered an important concern of state policy.

Public sector, providing conditions of good quality employment, was regarded as 'model employer' and expanded its workforce continuously for about four decades. Also, where the private sector failed to continue operations of enterprises and employment of workers, the government took over such enterprises, with a view to, inter alia, protecting employment. The private sector was expected to follow the rules of employment as laid down in various legislations and agreements so as not only to protect employment but ensure its quality.

Growth of employment emerged as an important concern in development planning around the middle of 1970s, when it was realised that economic and demographic performance of the economy had fallen short of earlier expectations and as a result unemployment had been on an increase. The problem was sought to be tackled through a two-pronged strategy: on the one hand, efforts were initiated to make development more employment oriented, by encouraging growth of employment intensive sectors and including employment among the objectives of macro-economic and sectoral policies, and, on the other, special employment programmes, for creating both short-term wage employment and self-employment were introduced. This approach was continued over the next one and a half decade.

The beginning of 1990's saw initiation of economic reforms, involving deregulation of domestic economic activities and liberalisation of foreign trade and investment regimes. Public sector was no longer seen as an employment provider; it has, in fact, experienced a continuous decline in employment since mid-1990s. Higher growth of the economy induced by liberalisation, was expected to lead to a faster expansion of employment. Growth rate accelerated but employment growth saw a deceleration. And most new jobs were located in the informal sector with low earnings and no social protection. Start of the new millennium, however, seemed to have brought in a turnaround, suggesting an end of the period of 'jobless' growth and beginning of the positive result of liberalization in terms of a high employment growth. Doubts about the quality of employment based on NSSO estimates for 2004-05, on which this optimism was based, however, made such a conclusion sound rather hasty (see e.g. Unni and Raveendran, 2007). Results of the last NSSO Round (2009-10) suggesting a virtual stagnation in employment during 2004-05/2009-10 have proved a dampener in this regard.[47]

LIBERALIZATION POLICY

The liberalization policy, declared in 1991 by the Government of India, exposed the Indian companies to global competitive pressures and opportunities. Traditionally Indian companies were neither encouraged nor equipped to compete with international giants in the industry. They had enjoyed monopolistic or oligopolistic market. The government controlled most of the issues relating to business environment in the economy.

Liberalization made it almost mandatory to acquire latest technology and new techniques that could significantly reduce the cost of products and improve their quality. Frequently, the shift of technology has been from labour intensive to capital intensive. The thrust to enhance the productivity has been high in all these efforts. Such productivity enhancement efforts have almost become a necessity for Indian organizations to survive in the market.

Having realized that productivity could be improved through the reduction of unsuitable or surplus existing labour for the newly acquired technologies, firms planned for reduction of unproductive labour. Retention of them with upgraded technology would have caused the survival of firms difficult. As a consequence, companies had to find ways to rationalize their manpower to improve productivity and cut their costs quickly. While it is possible to argue, conceptually, to expand the level of activity without adding manpower for productivity improvement, it was a difficult route with increasing competition. Hence, managers frequently found no options but to reduce the unsuitable and surplus manpower though it had been a emotionally painful process for managers and employees both.

The schemes envisage that unproductive employees would leave the organization voluntarily if compensated adequately for job loss. The success of VRS depends on its ability to attract larger number of targeted employees to accept the scheme at the least cost to the organization. However, such manpower reduction also carries implication for the retained manpower (Zamutto and Cameron, 1985). The management of these retained employees influences the performance of organizations.

TRADE LIBERALIZATION AND EMPLOYMENT

Trade liberalization, loosely defined as a move towards freer trade through the reduction of tariff and other barriers, is generally perceived as the major driving force behind globalization. Rapidly increasing flows of goods and services across national borders have been the most visible aspect of the increasing integration of the global economy in recent decades. However, this has also been one of the most contentious aspects of globalization.

Critics of trade liberalization have blamed it for a host of ills such as rising unemployment and wage inequality in the advanced countries, increased exploitation of workers in developing countries and a "race to the bottom" with respect to employment conditions and labour standards, the de-industrialization and marginalization of low-income countries, increasing poverty and global inequality, and degradation of the environment. These views have spread in spite of the fact that the benefits of freer trade, in terms of improved allocation of resources and consequent gains in productive efficiency and economic growth, is a basic tenet of mainstream economic analysis.

This dispute over trade liberalization has wide ramifications for the future path of the global economy and its governance. A basic issue is that of the implications of trade liberalization for economic development and the reduction of inequality between advanced and developing countries. If trade liberalization is, as the critics claim, detrimental to

economic growth in developing countries then the current trajectory of the global economy will lead to growing inequalities between advanced and developing countries rather than an eventual convergence. Moreover, if, as claimed, trade liberalization also harms the poor in developing countries it will thwart a basic common objective of the international community, that of the reduction in global poverty. Apart from this, what is also at stake is the viability of the current governance structure of the global economy. If the effects of trade liberalization are those depicted by its critics then the value of the WTO and the multilateral trading system it promotes and upholds is put in serious doubt. Similarly, in the eyes of its critics, the role of the Bretton Woods institutions is also compromised by their strong support for trade liberalization in their policy conditionality at the country level and for continued multilateral trade liberalization.

The issue of trade liberalization and employment forms part of a broader array of relationships between globalization and labour, including questions of trade and labour standards, social protection, and the role of social dialogue. It is also closely related to the liberalization of policies towards foreign direct investment and the role of multinational enterprises. It is clearly beyond the scope of this study to address this daunting range of issues. Instead, it will, in keeping with the title assigned to the Office by the Working Party, focus on the link between trade liberalization and employment. Given that the level and quality of employment is strongly dependent on the level of economic growth, as well as the fact that it is a key determinant of economic welfare in countries at all levels of development, this focus is by no means too narrow. One cannot discuss the impact on trade liberalization on employment and conditions of work without also addressing the central mediating issue of its impact on economic growth. In addition, the impact of trade liberalization on the level and structure of employment is also an important determinant of its impact on poverty, wage and income distribution, and on the quality of employment. These latter variables are clearly among the central points of contention in the debate over trade liberalization.

TRADE POLICY LIBERALIZATION AND GENDER EQUALITY

India adopted several waves of trade and fiscal reforms in 1991, in response to a balance of payments crisis. The reforms included de-regulation, sharp reductions in the number of goods subject to licensing and other non-tariff barriers, reductions in export restrictions, and tariff cuts across all industries. As a consequence of these reforms, firms operating in the Indian economy have faced new pressures to remain competitive by reducing costs. In this research, we address the question of how the increased competition

that resulted from trade liberalization has affected the compensation of male and female workers.

With reduced government protection and with increased exposure to competition from abroad, employment and pay patterns in Indian manufacturing industries changed markedly following liberalization. These industries experienced large variation in the timing and extent of tariff and non-tariff reductions during and after the 1991 reforms. The varying rates of liberalization across different industries provide an excellent opportunity for examining the impact of increasing exposure to international trade on gender wage differentials.

Neoclassical theory implies that with competition, discrimination against female workers should diminish over time. This diminishing occurs because employers are less able to indulge their (costly) tastes for discrimination as competitive forces reduce profit margins. We incorporate this idea into a theoretical model of trade competition, industry concentration, and discrimination. Our theoretical model demonstrates that the implied outcome of a reduction in the wage gap from increased trade competition need not always result.

Trade liberalization has brought a number of opportunities and challenges for male and female workers. Although the literature on international trade and gendered impacts has grown in recent years, little consensus has emerged as to the linkages between trade flows and gender differentials in employment, wages, and other dimensions of human capital. Numerous studies have documented the increasing representation of women in developing country workforces, and especially in their manufactured export industries. Elson and Pearson (1981) were among the first to show women's growing participation in manufactured export industries. Subsequent work has documented the feminization of the workforce in export-oriented industries, especially in semi-industrialized countries (Ozler 2000). More recently, Nordas (2003) finds a positive and statistically significant relationship between exports and female employment shares in Mauritius, Mexico, Peru, the Philippines and Sri Lanka. Because export-producing industries in these countries tend to hire women, trade policies that promote exports are likely to promote employment opportunities for female workers.[49,50]

Although production for world markets has generated new paid employment opportunities for women in developing countries, these opportunities have not translated into more secure jobs as firms have faced pressures in international markets to keep costs low. Employment is often casual, temporary, and flexible in nature, with poor working conditions and little easing of domestic workloads (Barrientos, Kabeer,

and Hossain 2004). Men are more likely to obtain formal sector jobs while women are more likely to enter the informal sector, contributing to gender inequality.

Trade liberalization can also affect gender equality through the reduction in tariff revenues, which can cause a reduction or a reallocation of government expenditures that affect various dimensions of men's and women's human capital and well-being. Grown (2005) builds this sort of pathway into a framework for understanding the linkages between trade liberalization and access to reproductive health services. Such linkages include direct channels through changes in government expenditures on reproductive health services, as well as trade agreements that include provisions on health care services. Indirect channels include changes in labor market conditions that affect income, mobility, health, and decisions about marriage and fertility. More broadly, Schultz (2006) examines cross-country variation in schooling and health as a basis for gender inequality and finds that trade liberalization is associated with increased trade and with higher levels of education and health, especially for women.[59,60]

PRIVATIZATION: THE EMPLOYMENT IMPLICATION

The impact of liberalization on employment primarily depends on the components of measures one takes into account, viz. stabilization or structural adjustment. It is generally hypothesized that stabilization measures are likely to have an adverse effect on employment growth whereas the impact of structural adjustment on employment depends on several factors. While some factors may work towards creating a positive impact on employment (by improving efficiency and productivity-Joshi and Little,1996) others may work towards worsening of the employment situation.

Largely, through the practical documentation provided by the trade unions, it is widely accepted that privatization usually results in a decline in the number of employees, as well as changes in organization, pay and other working conditions. Therefore, with divestiture, as far as the workers are concerned, initial apprehensions regarding employment are justified. The change of ownership from public to private usually means losing a status resembling that of a civil servant to becoming a private sector employee with no guaranteed job security. Moreover, positive human resource policies and a closer eye on society concerns are generally associated with public ownership, largely because of the narrower economic objectives characteristic of privatized or private enterprises. Therefore, the trade unions general stance towards divestiture is largely defensive and uncompromising. Nevertheless, it is also interesting to note that there have also been instances whereby employment has been protected through guarantees given by governments, or by agreements signed between trade

unions and governments and/or the new employing body.

In India the policy of disinvestment has been looked upon with skepticism. The strategic sale of BALCO in 2010, to a private party was met with a lot of resistance from the workers. They went on an indefinite strike, which lasted for over 60 days. They allowed Sterlite Industries (the new employers) entry into the premises only when the latter agreed not to retrench a single worker. Given this, the focus of this sub-section is specifically to examine the impact of disinvestment on employment levels in the Indian SOEs.

Privatization as a process that aims at reducing the involvement of the State or the public sector in the nation's economic activities, by shifting the divide between public sector and private sector in favour of the latter (Greenfield Privatization) has made considerable progress since the introduction of the new economic policy (NEP). The process of re-divide has been mainly through:

- Delicensing of major industries
- Decline in number of areas reserved for public sectors, and
- Encouraging direct foreign investments

Thus, the role of the public sector which was sought to be enlarged in the Industrial Policy Resolution (IPR) of 1956 is henceforth to be limited to essential infrastructure and defense and more and more areas are now being opened to the private sector. Encouraging private sector participation has been the main thrust of reforms in SOEs most of which are in the infrastructure sector. A wide spectrum of services such as transportation (railways, roads, civil aviation, ports and shipping), power generation, transmission and distribution and telecommunication services have now been opened to the private sector. In these areas, new schemes of Build Operate Lease Transfer (BOLT), Build Operate Transfer (BOT) and Build Own Operate Transfer (BOOT) have been introduced. Under the BOLT scheme the private entrepreneurs are invited to build the asset and then lease the constructed assets to the public sector. The public sector pays the private entrepreneur the lease charges for the asset. On the expiry of the lease period, the asset is transferred to the public sector for the remaining period of the economic life of the asset. Under the BOT scheme, the private operator builds the project at hand, operates it till it has broken even and then transfers it to the government, who takes care of the asset from then on. Similarly, BOOT is functionally the same as above, except for the fact that the ownership of the project/asset resides with the private operator.

GLOBALIZATION, ECONOMIC POLICY AND EMPLOYMENT

Sweeping changes have taken place in the world's economies in recent decades, changes which have reshaped the structure of employment on a global scale. National economies are now more integrated into the global system than at any other point in the recent past. The volume of international trade and the magnitude of cross-border capital flows have reached historically high levels. Advances in communications and transport technologies have led to the establishment of complex international production networks, with developing countries producing an unprecedented level of manufactured exports within global supply chains. Fundamental shifts in economic policies have accompanied the process of globalization. These policies have emphasized maintaining low rates of inflation, liberalizing markets, reducing the scope of the public sector and encouraging cross-border flows of goods, services and finance, but not labour.

It is commonplace these days to assert that globalization provides enormous challenges as well as opportunities. This observation is particularly relevant with regard to employment. The era of global integration has been associated with far-reaching changes in the structure of employment, including pressures for increased flexibility, episodes of "jobless growth," growing informalisation and casualization, expanding opportunities for the highly skilled, but vanishing opportunities for the less skilled. New employment opportunities have been created in many developing countries due to the expansion of globally-oriented production, helping to reduce poverty and raise incomes. However, contradictions abound. Many of the new employment opportunities are precarious, and the size of the "working poor" population remains staggering.

The transformation of women's employment during this period has been similarly far-reaching. More women participate in paid employment than at any other time in history. The entry of women into the labour force has meant that, in many cases, the economic opportunities available to them have grown. However, equality of opportunity remains elusive. Sex segmentation of labour markets is endemic, with women concentrated in lower quality, irregular and informal employment. Economic stabilization programmes and the process of global integration have frequently squeezed household incomes, pushing women to enter the paid labour force. At the same time, economic reforms have intensified demands on women's unpaid work, creating a situation in which increasing the supply of women's labour is a central strategy by which families cope with fundamental economic change. At a basic level, women's employment, paid and unpaid, may be the

single most important factor for keeping many households out of poverty.

GLOBALISATION AND EMPLOYMENT TRENDS IN INDIA

Globalization means gradual integration of economies through free movement of goods, services and capital. The first era of globalization during the nineteenth century was the rapid growth of international trade between the European imperial powers, the European colonies, and the United States. The process of globalization accelerated after World War II, subsequent to the formation of Bretton Woods institutions and the regeneration of Western Europe through the Marshall Plan. Globalization has proceeded with great speed since the beginning of the 1980s and most of the countries of the world have been more closely integrated with one another since then. The process of integration has been greatly facilitated because of declining transport costs and the advent of Information and Communication Technologies (ICTs). Simultaneously, gross trade, foreign direct investment (FDI), capital flows and technology transfers have risen significantly.

Globalization and closer integration of economies have had significant impacts on the economies of both developed and developing countries. It is in this context that many scholars have tried to study the impact of globalization on growth and employment, poverty and inequality. An important consequence of this is that it has brought into focus the central issue of growth and development— namely to what extent is the process of industrial revolution and diversification of labour force into non-agricultural sectors in developing countries like India and China been accelerated or hampered by the new wave of liberalization of trade and increased FDI?

Most of the analysis of the impact of globalization is undertaken by using the traditional theoretical framework. Since in many cases the results arrived at from empirical findings do not match the theoretical conjecture, scholars have questioned the veracity of long held theoretical propositions.

CONCLUSION

As the employment challenge that India faces consists both of creating of new jobs and improving the quality of existing jobs, a faster economic growth is the key to meet this challenge. A faster growth even with relatively low employment elasticity can generate reasonably high employment growth with significant increase in productivity. With a view to making employment growth faster, sectors and activities with relatively higher employment elasticity

could be targeted for particularly high economic growth.

Trade liberalization, by enhancing productivity growth, is supposed to bring about employment growth in the industrial sector. Our study shows that in the organized manufacturing industries, successive phases of trade reforms bring out a positive relationship between high labour productivity growth rates and high employment growth. This holds across broad industry sectors as well as the usebased sectors - the intermediate goods, capital goods, and consumer goods industries.

Although economic analyses of the effects of privatization have largely focused on firm performance, the greatest political and social controversies have usually concerned the consequences for the firm's employees. It is frequently assumed that the employment and wage effects are negative, and workers all around the world have reacted to the prospect of privatization, especially when foreign owners may become involved, with protests and strikes.

This paper began by reviewing the current debate on the impact of globalisation on employment, poverty reduction and on inequality in developing countries. It was found that the predictions of the given trade theories that increased trade and FDI consequent to globalisation would result in generating higher employment in labour surplus developing countries has not always proved correct.

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