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DIVERGENCE IN THE WAGE SHARE AND PROFIT SHARE IN THE INDIAN MANUFACTURING SECTOR

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ABSTRACT

The issue of income distribution holds great significance. The size of the economic pie and its distribution are two intertwined issues. Growth, in itself, is not a sufficient objective for any economy. High growth with an inequitable distribution, where one social class prospers at the expense of another cannot usher in development. Profits spiraling at the expense of wages have become a global trend. The state of affairs in India is not very different from global trends. Data confirms profit inflation at the cost of a declining share of income of workers in the manufacturing sector. An important story that underlies these trends is that the secondary and tertiary sectors have capitalized on the consistent marginalization of the workers in the agrarian and rural sector of the country. The real wage stagnation and the large labor reserve, have contributed to a rise in the surplus incomes. The paper utilizes data from EPWRF, 1973-74 onwards till 2013-14. The analysis of the Indian manufacturing sector confirms a general trend of spiraling profit incomes and plummeting wage shares and a multitude of factors are responsible for these trends in varying degrees. These factors are: Compression of wages amidst rising costs of other factor inputs, the ability to set high markups, increased mechanization, Informalisation & contractualisation, union labor strength, the role of minimum wage laws, employment programs, etc. The factors listed above have a great contribution in affecting the current trends. Certainly, the factors might vary in their impact from one industry to another, making subsector analysis imperative. The paper tries to locate the role of the factors mentioned above in determining the share of wages, considering the output price as a cost-plus (or markup), as is often the case for non-primary commodities. The study finds that technological changes and innovation have played a significant role in pulling the labor share down. A rise in the other input costs also becomes a reason for a cut in the wage share. Mark-ups have risen as well, transferring the share of workers to the profit-earning class. Contractualization of workforce and informalization of work have also played a prominent role in keeping the growth benefits from the workers. Weak labor institutions have also added to the plight.

KEYWORDS: *Manufacturing Sector, Divergence, Profit-Spiral*

INTRODUCTION

The issue of income distribution holds great significance. It is one of the oldest questions in economics, touched upon by prominent thinkers. The size of the economic pie and its distribution are two intertwined issues. That these questions have become deeply ingrained in the macro and development analysis is not an overstatement. Growth, in itself, is not a sufficient objective for any economy, in fact, it is imperative to keep a check on how this growth is shared by various factors that contribute to it. High growth with an inequitable distribution, where one social class prospers at the

expense of another cannot usher in development. Sustainability of growth itself depends on the distribution of income. If the profits spiral at the expense of wages resulting in contracting wage share, income and consumption will suffer, this could cumulate into stagnating aggregate demand, further impeding investment as the firms have no incentive to invest amidst stalling demand and bleaker future options. Growth dependent on profit income will generate demand dependent on imports or on labor displacing technologies, further weakening the labor class, this, in turn, could also cause political conflicts, social tensions and exacerbate inequality.

In this context, Thomas Piketty's work on wealth and income inequality; the growing share of capital incomes across the world deserves mention. Piketty puts up an important question in the introduction to the book, "Do the dynamics of private capital accumulation inevitably lead to the concentration of wealth in ever fewer hands, as Karl Marx believed in the nineteenth century? Or do the balancing forces of growth, competition, and technological progress lead in later stages of development to reduced inequality and greater harmony among the classes, as Simon Kuznets thought in the twentieth century?" (Piketty & Goldhammer, 2014).

According to the trickle-down proposition, the concentration of wealth in the topmost layers of the economic hierarchy helps the economy as a whole, since the wealth and the growth benefits eventually reach the people at the bottom. On the other hand, the empirics, show a completely different image. A vast literature indicates that the factor shares were considered to be stable for a long time.

Karabarbounis and Neiman (2013) state how stability in labor income share has become a key assumption in various macroeconomic models, since Kaldor's work in 1957. In fact, until 1980's stable labor share was accepted as a stylized fact of economic growth. Bowley's Law states that the labor income share is constant in the long run. The recent empirical evidence, however, puts this stability in question, indicating a consistent decline in the labor share. The decline in labor share is a global trend. Giovannoni (2014) mentions that the 2000s witnessed a drastic deterioration of the income distribution, in the U.S. and worldwide, and this has been accompanied by, an increase in the research to explore the factors responsible for this trend. The topic has gained interest since the mid-2000s, the global crisis of 2008 and the greater availability of distribution statistics can be understood as the factors triggering this reinvigorated interest.

LITERATURE REVIEW

Owing to a revival of interest in the analysis of the distribution of income, quality research on this issue both old and recent exists. This work derives motivation from the existing literature on this topic. The idea is to conduct an analysis in relation to the Indian manufacturing sector and explain the factors responsible for divergence rather than just discussing the trends. This section gives an account of the empirical literature surveyed for the study.

A large number of studies discuss the global scenario. Ellis & Smith (2007) show that the growth of Profits has been strong in many developed economies in recent years, and the profit share has been high compared with historical experience. The explanation advanced in this paper is that ongoing technological advancement has raised the rate of obsolescence of capital goods. This results in a greater rate of churn in both capital and jobs, which puts firms in a stronger bargaining position relative to the labor force that now faces more frequent losses in jobs. This implies a greater profit share for firms. This effect is stronger where labor market institutions are more rigid, consistent with the cross-country pattern in the trends in the profit share.

Guerriero and Sen (2012) report a general reduction in the labor share around the world, in particular mid-1980s onwards. This study analyzes factors underlying the variability in the labor share for a panel of 89 countries over the period 1970-2009. They suggest that trade openness and innovation in technology have a strong positive impact on the labor share, whereas foreign direct investments inflows and mechanization seem to hamper this share. Other factors, such as the level of economic development, education, and the degree and effectiveness of regulations in the labor market, also significantly impact the distribution of income.

Karabarbounis and Neiman (2013) document that the global labor share has significantly dropped since the early 1980s, with the decline occurring within the majority of countries and industries. They show that the decline in the relative price of investment goods, due to advances in information technology and computerization, induced firms to shift away from labor and toward the capital. The lower price of investment goods explains roughly half of this observed decline, even when they allow for other mechanisms impacting factor shares such as rising profits, capital-augmenting technology growth, and the changing skill composition of the labor force.

Dùhaupt (2013) provides an overview of the evolution and trends in labor's share in selected OECD countries. The paper summarizes several theoretical approaches explaining functional income distribution. In light of the different theoretical frameworks, this paper examines the empirical literature on possible explanations for the prolonged decline. While heterodox economists hold neo-liberalism, financialization and the shift in workers' bargaining power responsible for the decline in labor's share, neoclassical economists relate this fall to skilled-biased technological change and globalization.

Piketty (2014) discusses how wealth and income inequality have risen across the globe and why will they continue to rise.

Bengtsson and Waldenstrom (2015) investigate the relationship between the capital share in national income and personal income inequality over the long run. They find strong long-run links between the aggregate capital in the economy and the distribution of income. This link was strong both before the Second World War and in the early interwar era but has grown to its highest levels since 1980. The correlation is particularly strong in Anglo-Saxon and Nordic countries, in the very top of the distribution and when only top capital incomes are considered.

Mishel & Bivens (2015) analyze the growing gap between overall productivity growth and the pay of workers in the U.S.since the 1970s. A careful examination of this gap between pay and productivity provides important insights about how to address the problem of stagnating wages and rising inequality.

The literature on this issue exists with respect to India also. Bhattacharya et al. (2009) investigate the long-run relationship between labor productivity and employment, and between labor productivity and real wages in the case of the Indian manufacturing sector. The panel data set consists of 17 two-digit manufacturing industries for the period 1973-74 to 1999-2001. They find that productivity-wages and productivity-employment are panels co-integrated for all industries. They also find that both employment and real wages exert a positive effect on labor productivity. They argue that flexible labor market has a significant influence on manufacturing productivity, employment and real wages in case of Indian manufacturing.

Vakulabharnam (2010) analyses the class structures in India and decomposes the overall inequality into inter-class and intra-class terms. The paper also connects these trends with the Indian policies during this period.

Roy (2012) looks into factor shares such as wages, profits, rents, and interests and also analyzes the changes in the share of inputs in the value of output. The changes are identified at the macro level and also at more disaggregated levels of the corporate sector, manufacturing sector and two-digit level industries. The paper argues that rising capital intensity in industries can largely be explained by the fact that growth in India increasingly depends on profit income. Also, the paper discusses that investments in the manufacturing sector were not always aimed at acquiring productivity-raising machinery but also to create capacities that did raise productivity. The paper highlights that average wage of workers have fallen far short from their productivity, the skill premium in an excess labor supply situation does not really depend on the skill requirement of specific sectors but by the relative absorption capacity of various sectors.

Basole (2014) analyses the evolution of income inequality in India in the period 1922-99 using the World Top Incomes Database. The paper states that inequality declined steadily, in the planning period driven by a fall in real incomes at the top levels of the distribution. In the early 1980s, there was a reversal of this declining trend. The 1990s witnessed an increasing divergence between the top 1% and the rest of the country.

Basu and Das (2015) analyze profitability in India's Organized manufacturing sector from 1982-83 to 2012-13. The paper finds evidence supporting a rise in profit share, technological factors being the primary drivers of growth in profit.

Goldar (2013) analyses the trends in wages and the wage share in various sectors of the Indian economy, particularly organized manufacturing, during the post-reform period. The results of the empirical analysis indicate that in manufacturing, the productivity-enhancing effects of trade liberalization weighted over the downward pressure of rent erosion on the wages. It is found that there was a rise in the wage gap between skilled and unskilled labor in the manufacturing sector. However, this did not occur in certain components of other major sectors. A downward trend in the wage share in value-added is observed for most of the sectors. This could be due to the reduced bargaining power of trade unions, increasingly capital intensive production and labor-saving technological change, among other factors. The paper presents empirical evidence indicating that increases in export intensity tend to depress the wage share.

Having gone through the existing literature, the following section discusses the status of factor incomes in the Indian manufacturing sector and the factors responsible for divergence.

Manufacturing Sector: Divergence in the Factor Shares

The Story of Rising Income Inequality in India is no Different From the Global Trend Discussed Above Himanshu (2012) Writes

When productivity grows, one should look at how much of that goes to wages and how much to profits. In the last ten years, though there has been a growth in productivity, workers have benefited less from this. This is because the share of profits in the value-added has more than doubled as compared to the share of wages. This is happening in both the manufacturing and services sector where companies are using the loopholes as well as the lack of implementation of labor laws to suppress wages. Companies and even the government are increasingly using contract workers to bring down wage costs and improving productivity.

The excerpt above is indicative of the fact that the state of affairs in India is not very different from the global trends. People in India struggle with sharp inequalities. This inequality has multiple dimensions and is ever-growing. Amidst all this, spiraling profits and a declining wage share has only been widening the existing disparities.

The indian manufacturing sector is fraught with a number of inefficiencies. The slow growth of Indian manufacturing has always been a concern for policymakers, and India's manufacturers have long performed below their potential. The manufacturing sector contributes a meager 17 % to the GDP, the share in employment being equally disappointing, stands at 12.6%. Apart from the sclerotic status of the manufacturing sector, growing informality is also an impediment hampering its performance.

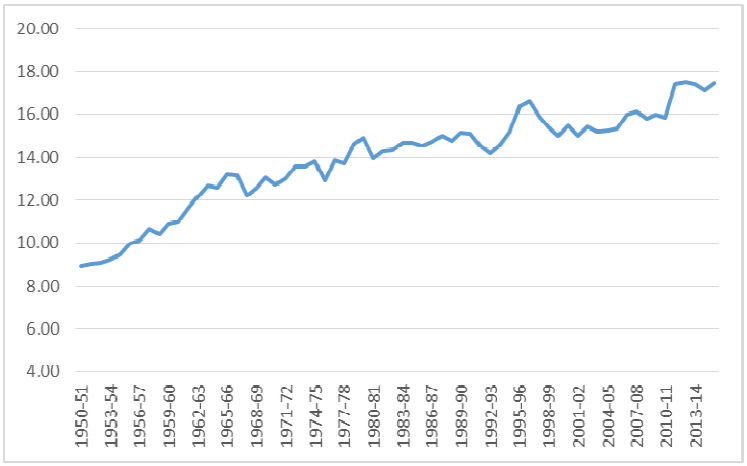

Figure 1: Share of Manufacturing Sector in GDP % (Constant Prices)

Source: CSO

Table 1: Sectoral Share in Employment 2011-12 (%)

Sector	Employed	Share
Agriculture	181406211.54	47.04
Manufacturing	48526229.05	12.58
Non-Manufacturing	43450913.90	11.27
Services	106763286.14	27.68

Source: *NSSO, Employment and Un Employment Survey*

Amidst abysmal performance of Indian manufacturing on the front of growth and employment, the division of returns is also asymmetric. The data for the Indian manufacturing sector reveals that workers haven't been able to reap the benefits of economic growth.

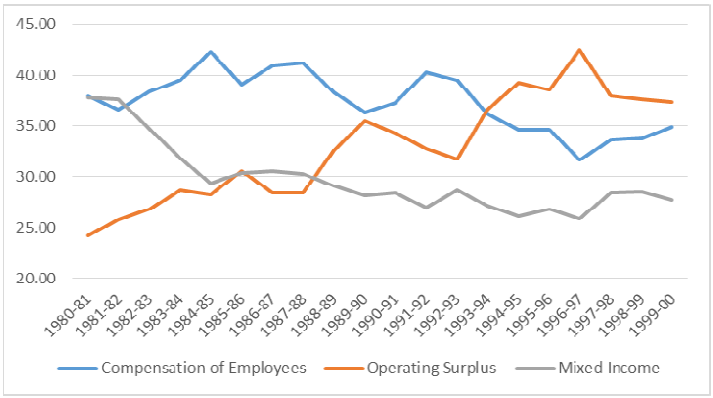

Figure 2: Share of Factor Incomes % (Base Year 1999-00)

Source: *National Accounts Statistics*

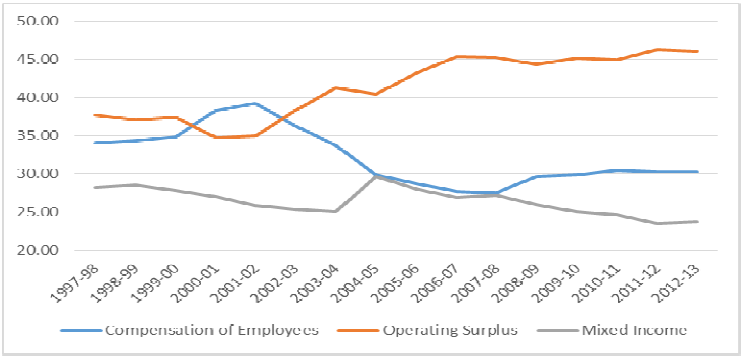

Figure 3: Share of Factor Incomes % (Current Prices)

Source: *National Accounts Statistics*

National Accounts Statistics (NAS) of the CSO shares data on the National Domestic Product series. It also publishes data on compensation for employees, operating surplus and mixed-income for NAS industries. Figure 2 and 3 shows that there has been a decline in the share of compensation of employees and mixed income along with a sharp rise in the share of operating surplus. Share of operating surplus in the manufacturing sector has consistently risen since 2001-02. In countries like India mixed-income, corresponds to the income of self-employed in the unorganized segment of the economy which assumes a pattern akin to wage incomes. The broad picture clearly indicates profit inflation at the cost of a declining share of income of workers and the self-employed. The trend is confirmed by data from the Annual Survey of Industries. The data for the Indian manufacturing sector reveals that workers haven't been able to reap the benefits of economic growth. Workers have seen their share falling in the net value added of industries even as the share of profits has sharply increased, figure 4 confirms this trend. 2001-02 onwards the divergence becomes glaringly visible. Figure 5 indicates how real wage growth has languished behind real productivity improvement.

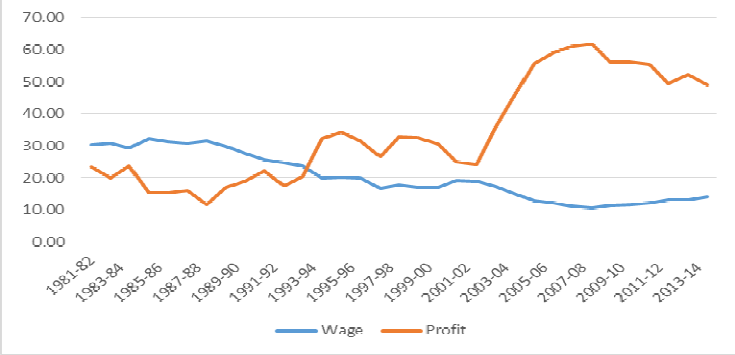

Figure 4: Share of Wages and Profits in Net Value Added (%)

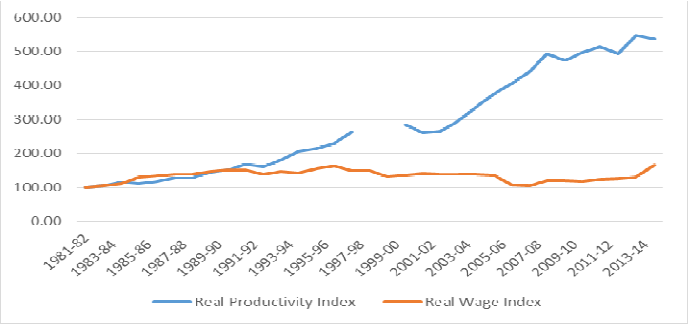

Figure 5: Trends in Real Productivity and Real Worker Wages

Source: *Annual Survey of Industries*

High growth in productivity can be attributed to the increasing mechanization of industries. Increasing mechanization makes it imperative that the workers upgrade their skills, implying greater labor productivity which should translate into higher wages. The rising share of profits reflects that the benefits of growing productivity are being captured by the capital owners.

Economic & Political Weekly Research Foundation (EPWRF), provides long term time series on the Annual Survey of Industries data. The data is available from 1973-74 to 2013-14 and has been concorded to national industrial classification 2004. Table 2, furnishes data on the wage share of 55 industries at the three-digit level. Wage share has been compared for the period before and 1991 onwards, treating the data before 1991 as a precursor. Out of 55 industries in the manufacturing sector listed above, 49 show a clear decline in the wage share, indicating a general downward trend. Manufacture of Knitted and crocheted fabrics and articles, Dressing and dyeing of fur; manufacture of articles of fur, Manufacture of Electric motors, generators and transformers and Manufacture of Bodies (coachwork) for motor vehicles; manufacture of trailers and semi-trailers are exceptions to this trend[1].

[1] 319 – Manufacture of other electrical equipment n.e.c, has a negative wage share uptill 1991 due to negative net value added, the wage share has been expressed as a proportion of net value added. The data is missing for the industries where the wage share has been indicated as "-".

Table 2: Wage Share at 3-Digit Industry Level-NIC (2008)

Industry	Up Till 1991	Beyond 1991	Industry	Up Till 1991	Beyond 1991
151	18.92	12.94	221	41.32	15.83
152	31.64	22.62	222	42.20	24.83
153	25.88	18.40	223	-	11.20
154	28.93	23.40	231	43.31	23.94
155	17.93	12.47	232	7.42	4.13
160	35.42	18.84	241+233	19.16	9.39
171	52.80	35.53	242	17.90	9.58
172	30.53	23.51	243	21.54	19.02
173	25.05	27.13	251	23.12	17.65
181	32.99	26.65	252	21.89	14.83
182	25.58	31.25	261	40.74	24.38
191	32.91	27.85	269	29.57	15.35
192	41.95	28.61	271	34.04	16.86
201	36.45	33.56	272	29.72	11.68
202	30.16	25.38	273	38.53	27.11
210	29.61	22.71	281	19.22	18.11
289	30.12	21.45	331+333	19.54	17.08
291+300	26.21	15.37	332	19.32	15.27
292	28.17	17.63	341	27.51	18.08
293	36.45	19.91	342	36.59	37.39
311	9.05	13.95	343	-	19.14
312+313	51.44	17.33	351	59.55	33.76
314	22.99	13.82	352	65.13	35.92
315	30.20	23.47	353	35.63	33.65
319	-19.05	14.20	359	34.14	15.96
321	24.58	17.15	361	37.18	30.25
322	18.57	15.74	369	30.89	19.57
323	28.98	8.65			

Source: *EPWRF*

The Growth of Real Wages and the Discussed Divergence Depends on a Lot Many Factors:

- Compression of wages amidst rising costs of other factor inputs
- Increased mechanization
- The ability to set high markups
- In formalisation &contractualisation
- Union labor strength
- Role of minimum wage laws
- Employment programs

Input Costs: The factors listed above have a great contribution in affecting the current trends. Certainly, the factors might vary in their impact from one industry to another, making subsector analysis imperative.

The Kaleckian price formation process can help locate the role of the factors mentioned above in determining the share of wages in an open economy. If output price is considered to be cost-plus (or markup), as is often the case for non-

primary commodities, it is easy to understand that any increase in the price of material inputs or fuel consumed can be passed on to the workers as a cut in the wage share or primary input producers, given the fact that the capitalists might have an upper hand in not letting their share fall.

The following figures plot the wage cost to input cost (material and fuel) ratio for 53 three-digit industries[2]. As explained above, the burden of a rise in the input costs can be easily passed on to the labor in terms of a smaller wage share. The ratio has declined for most of the manufacturing subsectors.

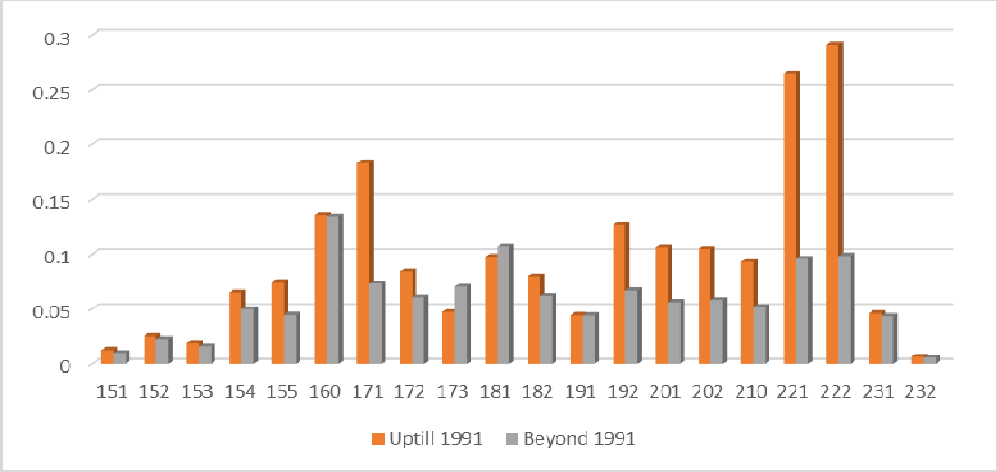

Figure 6: Wage to Input Cost Ratio3-Digit Industry Level-NIC (2008)

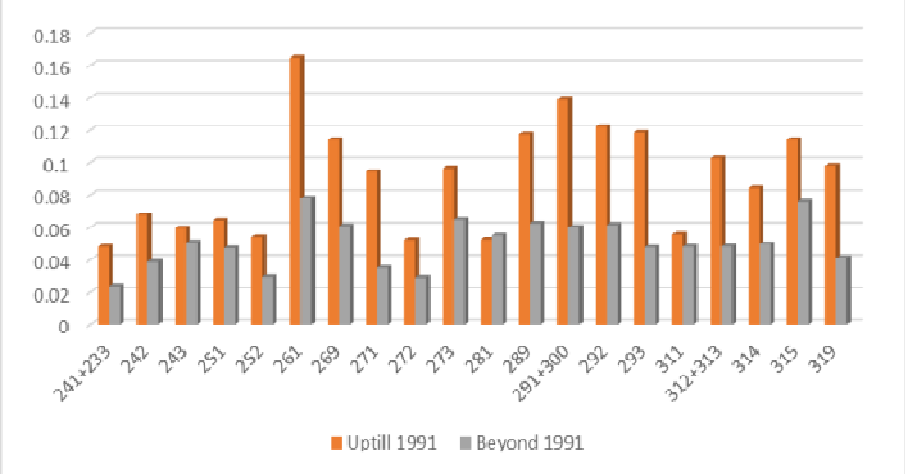

Figure 7

[2] Industries 223 and 343 have been dropped due to non-availability of data.

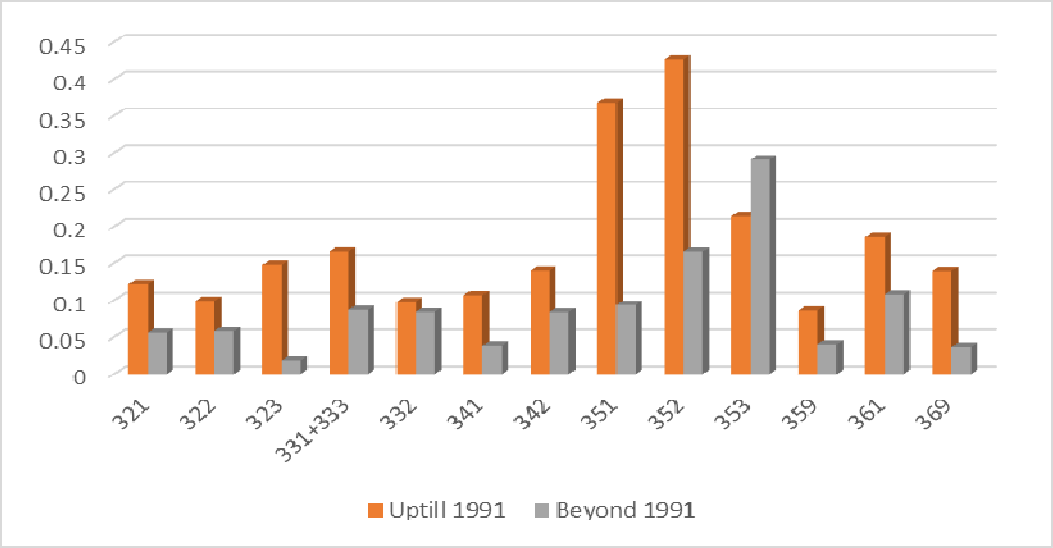

Figure 8

Source: EPWRF

Table 3 below shows the wholesale price index for important material and fuel inputs. The data confirms that the input prices have consistently risen. Amidst rising raw material prices, it is important to analyze how the proportion of input costs to net value added has changed.

Table 3: Wholesale Price Index: Important Input Items

Year	Food Grains	Fruits and Vegetables	Milk	Eggs, Fish, Meat	Condiments and Spices	Other Food Articles	Fibres
1981-92	22.04	18.29	19.53	16.47	15.30	23.30	24.11
1985-86	27.44	24.75	27.42	23.12	25.33	36.70	26.36
1990-91	39.49	37.33	40.85	32.03	43.52	70.27	42.04
1995-96	69.01	60.48	62.25	64.54	81.55	103.87	96.05
2000-01	97.92	78.35	88.89	95.88	107.66	103.06	93.89
2005-06	107.26	108.00	101.01	106.29	94.54	107.77	96.35
201011	174.43	172.05	175.88	190.13	243.98	181.94	198.38
2013-14	225.97	244.26	220.63	275.74	245.58	229.11	239.73

Table 4

Year	Oilseeds	Other Non-Food Articles	Metallic Minarals	Other Minerals	Coal Mining	Mineral Oils	Electricity
1981-82	24.68	17.63	10.37	40.72	12.93	14.30	12.73
1985-86	27.17	23.62	14.44	52.68	20.58	17.20	17.78
1990-91	48.11	35.54	17.09	79.06	30.08	22.12	25.59
1995-96	71.13	58.81	24.70	96.32	47.65	33.63	50.51
2000-01	71.52	76.14	34.28	93.25	72.15	71.63	79.05
2005-06	90.36	103.91	127.92	104.78	117.60	116.73	102.57
2010-11	141.33	176.71	373.78	153.37	165.33	157.47	113.17
2013-14	202.59	213.54	387.34	213.20	190.78	225.95	158.69

Source: *Office of Economic Advisor*

The data on the ratio of input costs to net value-added is evidence that the share of input costs has risen. 40 industries out of 55 at the three-digit level show a clear increasing trend in the share of input costs. However, there are some industries, where the share of material and fuel cost has declined on an average or has remained unchanged. It needs

to be added that the change (both increase/decrease) in the share of input cost has been very slow, while the wage cost has declined drastically.

Table 5: Manufacturing Industries Showing a Rise in the Share of Input Costs3-Digit Industry Level-NIC (2008)

154	291+300
155	292
171	293
172	311
182	312+313
192	314
201	315
202	319
210	321
221	322
222	323
241+233	331+333
243	341
251	342
252	343
261	351
269	352
271	359
273	361
289	369

Source: EPWRF

Labor Productivity and Technical Change: This drastic decline in the wage cost can be explained by labor productivity improvement outpacing the growth in the real wage. Trends in labor share are also reflected by movement in wages vis-à-vis labor productivity. Wage share has two components – real wages and labor coefficient (inverse of labor productivity). Real wages, in turn, depend on nominal wages and prices whereas the labor coefficient depends on the nature of technological progress.

$$\frac{Wages}{Total\ Income} = \frac{w}{p}\frac{L}{O}$$

The equation above shows that the share of wages can decline, ceteris paribus, either by a fall in real wages or a rise in labor productivity or if growth in productivity outstrips the real wage growth. The last of which indicates that the gains in productivity are not accruing to the wage-earning class.

In what follows, the paper gives evidence on labor productivity superseding real wage growth in the case of the majority of the industries. The wholesale price indices could be worked out only for 46 industries. Out of these industries, 42, show a declining real product wage ($\frac{w}{p}\frac{L}{O}$). Manufacture of coke oven products, manufacture of refined petroleum products, manufacture of glass and glass products, manufacture of structural metal products, tanks, reservoirs, and steam generators are exceptions to these trends. Following are the graphs plotting real wage movement vis-à-vis labor productivity growth for a few important manufacturing industries.

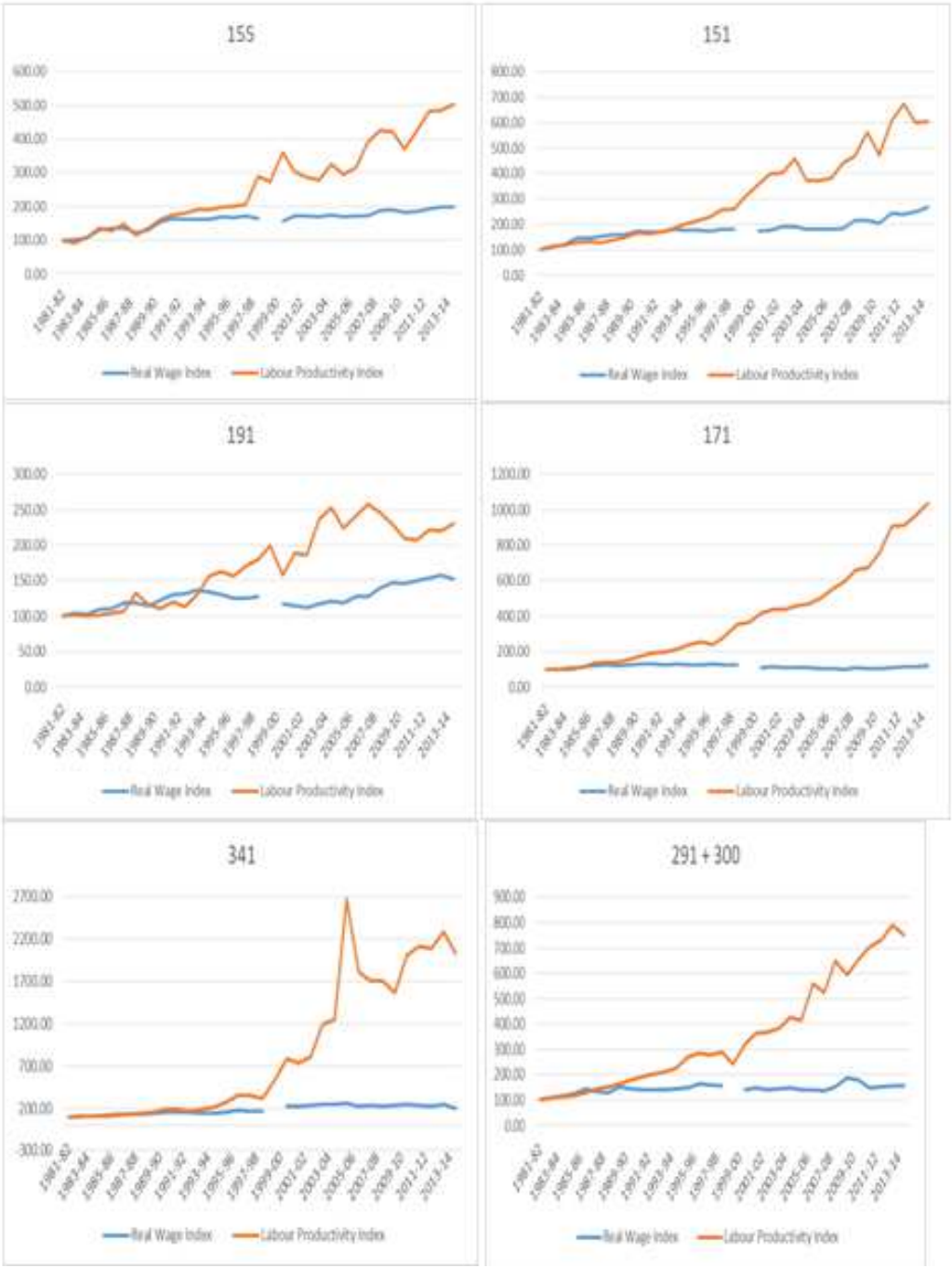

Figure 9: Real Wage Index and Labor Productivity Index3-Digit Industry Level-Nic (2008)

Source: *EPWRF*

Technological changes and innovation have played a significant role in pulling the labor share down. A shift in employment from labor-intensive to more capital-intensive sectors, growing importance of the high and medium-technology manufacturing, as well as financial services where profits have been rising are all important factors.

Any attempt to increase labor productivity, through increased mechanization at a higher rate than the rise in real wages (i.e. a fall in wL/pO) ipso facto means a rise in the share of capital if the other shares remain the same. The capital intensity of manufacturing has increased over the years.

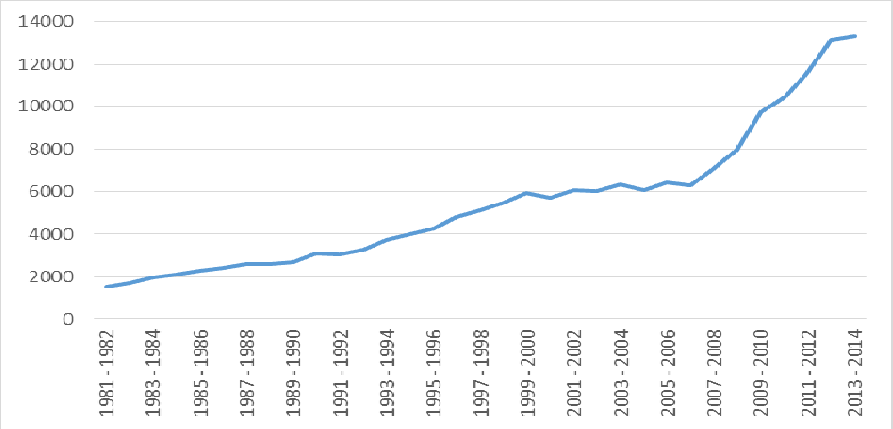

Figure 10: Capital Intensity of the Manufacturing Sector[4]

Source: ***EPWRF***

At the three-digit level as well, the rise in capital intensity is pervasive. Roy (2012) mentions that the growth in capital intensity in the Indian manufacturing sector is strongly correlated with growth in labor productivity, the benefits of which are getting sidelined by the profit earners. He also mentions that the share of workers employed in the manufacturing sector is on a decline and at the same time increasing use of technology might have resulted in a rise in the number of salaried workers, thereby changing the composition of the workforce. It has been noted that apart from increasing mechanization of the existing industries contributing to wage compression, the emergence of new industries like petrochemicals and metals that are naturally more capital intensive has further added to the pressure. Technological change has been seen as the main factor behind the falling labor-intensity of the manufacturing products and the consequent employment problem. The situation poses a danger because the capital to labor ratio has been rising across industries, i.e. not just the capital intensive industries but also the labor-intensive industries. Kapoor (2014) presents data on the growth in capital intensity of production, confirming rising capital intensity in labor-intensive industries too which has repercussion for the distribution of value-added into profits and wages as well.

Sen and Das (2014) also confirm the trend of rising in capital intensity across Industries. The paper mentions that the labor-intensive industries haven't become more employment-intensive, given the removal of industrial licensing and de-reservation and may be linked to restrictive labor laws. It is widely believed that India's rigid labor regulations and employment protection legislation have reduced the incentive of firms to hire workers on permanent contracts and pushed them towards more capital-intensive modes of production. However, as pointed by Sen & Das (2014) stringent labor regulations might be able to explain the level of labor-intensity but to explain the decreasing labor-intensity over time, labor regulations would need to have become tighter over time. Since this has not happened in the absence of pro-worker legislation for the last two decades, they attribute the increasing capital intensity to increases in the ratio of real wage rate to the rental price of capital. This, in turn, is a result of a fall in the relative price of capital goods, driven by trade reforms and falling import tariffs on capital goods over time.

[4] Capital Intensity has been calculated by deflating fixed capital by the wholesale price index of machinery and equipment and dividing by total persons engaged.

Rising Mark-Ups: Markups Form An Important Part Of Price-Fixing Process. The temptation to raise markup is usually satisfied by bringing the wage costs down. An increase in productivity, while opening the possibility for increased real wages, simultaneously opens the door to raise markups.

The data shows that mark-ups have risen, but the change has been slow. About 36 industries have witnessed a rise in mark-ups.

Table 6: Mark-Ups of Industries at Three-Digit Level (NIC 2008)

Industry	Uptill 1991	Beyond 1991	Industry	Uptill 1991	Beyond 1991
151	0.05	0.06	210	0.17	0.15
152	0.05	0.06	221	0.14	0.22
153	0.05	0.06	222	0.17	0.17
154	0.12	0.12	223		0.29
155	0.22	0.22	231	0.09	0.13
160	0.13	0.28	232	0.09	0.13
171	0.11	0.12	241+233	0.17	0.19
172	0.12	0.13	242	0.18	0.21
173	0.10	0.12	243	0.26	0.21
181	0.10	0.15	251	0.15	0.16
182	0.15	0.10	252	0.14	0.14
191	0.07	0.09	261	0.15	0.19
192	0.10	0.11	269	0.19	0.24
201	0.12	0.07	271	0.13	0.15
202	0.15	0.12	272	0.13	0.18
273	0.11	0.12	323	0.16	0.13
281	0.11	0.14	331+333	0.30	0.19
289	0.15	0.14	332	0.21	0.23
291+300	0.20	0.17	341	0.16	0.13
292	0.16	0.15	342	0.13	0.10
293	0.12	0.14	343		0.16
311	0.27	0.17	351	0.09	0.13
312+313	0.06	0.14	352	0.10	0.12
314	0.17	0.21	353	0.14	0.17
315	0.17	0.16	359	0.11	0.15
319	-1.06	0.20	361	0.15	0.12
321	0.20	0.17	369	0.17	0.11
322	0.23	0.16			

Source: *EPWRF*

Other Factors: Not just mechanization of the existing industries, there has also been a shift of labourintensive industries such as jute to the informal sector. A growing body of evidence indicates a huge inflow of contract labor ready to work for low wages. In fact, informalization of labour-intensive industries and growingcontractual hiring of labor are interrelated. Goldar and Aggarwal (2010) point out that since the 1980s, there has been increasing informalization of industrial labor in India. This process has taken place in two forms, firstly, there has been a continuous rise in the share of unorganized sector employment in the manufacturing sector. Secondly, various subsectors of the organized manufacturing sector are sliding to the informal sector owing to massive use of contractual and informal workers. Das et al. (2015) furnish an important fact that the share of the workers category in total persons engaged has remained remarkably stable (76.25 per cent in 2000-01, 76.69 per cent in 2006-07, and 77.61 per cent in 2011-12), but the share of contract workers in

total workers engaged has been on a continuous rise from 21.31 per cent in 2000-01 to 30.37 per cent in 2006-07 and further to 34.61 per cent in 2011-12. This indicates that there has been a growing preference for contractual workers. Ample availability of the informal labor and increasing absorption of this labor in the formal sector has kept the wages in the formal sector, low.

The actual distribution of increased productivity depends on the relative bargaining strength of the two claimants. Das et al. (2015) highlight the role of decline in labor strength as a factor affecting a fall in labor income share. The paper mentions that union power has displayed a secular decline starting in the 1980s. The important indicators of union strength show a downfall, starting in the 1980s and accelerating in the 1990s. There is no evidence of deterioration in industrial relations as captured by the absence of a strong trend in man-days lost due to industrial disputes as a proportion of man-days worked over the whole of the 1980s. Second, union density declined from 45 per cent in the late 1970s to about 30 per cent in the late 1980s, which further declined in the 1990s. Third, the proportion of man-days lost due to strike started to fall in the 1980s, and the decline accelerated sharply in the 1990s (Nagaraj, 1994; Dutt, 2003). Even verbal support for labor has declined in the 1990s as the formal private-sector workers have become politically weak (Nagaraj, 2002). Furthermore, several states have relaxed the provision of enforcement of labor laws leading to flexible practices at the ground level.

There is a prevalent wage-setting system in India, whereby the Wage Boards and Pay Commissions generally sets wages in the public sector, which in turn sets the benchmark for private-sector wages (Dutta, 2007). Minimum wages are fixed at a level that is expected to meet subsistence needs[6]. The downward pressure on wages is mitigated by labor market imperfections such as the prevalence of monopsonistictrade unions and the guaranteed minimum wages, which particularly applies to the public sector, where government employees are largely unionized, assured of life-time employment and face very little risk of being fired (Dutt, 2003). While clearly there is evidence of wage inflexibility due to the presence of unions and minimum wages law in the formal private sector (see, Deshpande et al, 2004, and Sharma, 2006), however statutory minimum wages have been largely ineffective in influencing wages in the informal sector due to weak enforcement, irregular revisions, lack of proper indexation to cost of living and absence of trade unions (Dutt, 2003).Also, the literature highlights that the policy suffers from poor fixation norms, inefficient implementation and enforcement as well as disparity in coverage.

Given the employment situation in the country, various employment generation programs have been announced in the past. There have been programs aimed at generating employment and ensuring minimum livelihood in rural areas. At the same time, schemes at the level of micro and small enterprises have also been formulated with a special focus on boosting manufacturing employment. It is believed that such programs could play a significant role not only in a sense, that there will be more jobs but also in terms of ensuring secure livelihood for the workers at the bottom-most layer, i.e. the

[6] In the absence of any criteria stipulated for fixing the minimum wage in the Minimum Wages Act, the Indian Labour Conference in 1957 had said that the following norms should be taken into account while fixing the minimum wage. The norms for fixing minimum wage rate are (a) three consumption units per earner, (b) minimum food requirement of 2700 calories per average Indian adult, (c) cloth requirement of 72 yards per annum per family, (d) rent corresponding to the minimum area provided under the government's Industrial Housing Scheme and (e) Fuel, lighting and other miscellaneous items of expenditure to constitute20% of the total Minimum Wages, (f) children education, medical requirement, minimum recreation including festivals/ceremonies and provision for old age, marriage etc. should further constitute 25% of the total minimum wage.

rural workers. Unfortunately, the desired results have not been achieved. Make in India is a campaign, with a goal to transform India into a global manufacturing hub and generate enough employment. While "Make in India" has invited a lot of support, there are economists who advise that sticking to the service sector and generating jobs there is a better move, Green (2014). It is the high-quality jobs that India needs to generate. Amirapu and Subramaniam (2014) emphasize that it is the formal manufacturing sector which is characterized by high productivity and dynamism, not the informal sector. The feasibility of such an approach is under question, given the fact that India is on the road to premature deindustrialization[7]. 'SKILL INDIA', a multi-skill development program has been initiated with an objective of job creation and entrepreneurship for all socio-economic classes. It endeavors to establish an Indian equivalent of the international framework for skill development, creating workforce mobility and enhancing youth employability, something that Indian manufacturing sector direly needs. India needs a comprehensive policy framework to generate quality employment and growth. Encouraging skill development, recognizing the appropriate subsectors for export and trying to absorb the informal employees into better employment opportunities should be the mainstay of policy.

SUMMARY

The analysis of the Indian manufacturing sector confirms a general trend of spiraling profit incomes and plummeting wage shares. A multitude of factors is responsible for these trends in varying degrees. Technological changes and innovation have played a significant role in pulling the labor share down. A rise in the other input costs also becomes a reason for a cut in the wage share. Mark-ups have risen as well, transferring the share of workers to the profit-earning class. Contractualization of workforce and informalization of work have also played a prominent role in keeping the growth benefits from the workers. Weak labor institutions have also added to the plight.

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[7]Amirapu and Subramanian (2014) highlight the disparity in the performance of states on the manufacturing front. They state that Gujarat, Maharashtra and Tamil Nadu are the few states which could achieve a high share of manufacturing sector in the GDP. In all the other states, manufacturing is now on a decline, in fact, even in the states that could not even industrialize effectively.

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