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Compressed Capitalism, Employment, and the Structural Limits of the State: The Indian Case

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This paper examines the nature of changing labor markets in India and identifies the severe structural limits of the state in creating plenty of meaningful jobs. The argument is as follows:

- *the instruments of intervention available at the state's disposal are highly constrained due to a variety of structural endogenous and exogenous factors, whose cumulative and combined effect has been to generate a form of late capitalism that does not follow the classical capitalist transition pattern.*
- *Instead the uneven development resultant from this type of capitalism is unable to create either the desirable type or high volume of jobs. This late form of capitalism is compressed due to both pre-mature stagnation and leapfrogging in specific sectors and industries and by which the classical or agrarian transition is either incomplete or stalled and thus unable to play its historic role of raising agricultural productivity to motor capitalist industrialization.*

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- *Relatedly, the limited industrialization, albeit with some globally visible sectors, is suggestive of uneven development that comprises both capitalist maturity and a relatively structurally undifferentiated informal sector, where routine features of capitalism such as the spread of wage labor, job security, and formal contracts are missing.*
- *If empirically it is shown that the significance of Indian agriculture in terms of its economic contribution has substantially decreased but workforce participation remains high with limited off-farm work, while industry's contribution has stagnated, then employment remains a serious challenge. India's favourable position in tradable services is no panacea since services employment is largely in the informal or unorganized sector.*

All of these go to suggest that the very nature of Indian capitalism is something we have not witnessed before and it is in this context that state intervention for employment creation needs to be assessed.

This paper examines changing labour markets in India by theorizing the structural nature of really existing capitalism and indicates the difficulties the state faces in inducing a transition on capitalist lines in which employment generation (or wage work) is an important milestone.

1. Introduction

Development and more narrowly economic development is a preoccupation that few post-colonial or late industrializing countries have escaped. As sovereign nations, states have intervened variously across the developing the world. Those more ambitious and nationalist have sought to create autonomous or self-reliant economies, mostly through state-led industrialization either through domestic production or via exports. Agriculture, a significant sector both in terms of economic contribution and employment, often took a backseat and when targeted, it was mostly as a residual response to a developmentally inadequate industrialization program. Employment as a development goal was rarely mentioned with as much force as growth or self-reliance was, and where employment was implicitly understood it was not realized through state intervention. It is only more recently that employment has been given a more concrete

policy focus (see World Bank 2012) when ironically generating employment on a large scale has become difficult.

The objective of this paper is to bring employment back into the capitalist development equation. Development as both an outcome and process is quite utilitarian. It promises social wellbeing, while employment due to income flows provides economic security and market access for goods and, when not provided adequately by the state, welfare enhancing market-based services such as health and education. However, development is more than a utilitarian engineered outcome, it is a long historical process in which institutional legacies and power and politics play a role. Employment outcomes under capitalist development in developing countries cannot be decontextualized from this evolutionary capitalist dynamic even if each country or region displays varying propensity and capacity to intervene for employment creation. While employment as a development outcome was possible through state-led industrialization in the past when the degree of international integration was limited, today the conundrum for developing countries is how to bring about employment at a time of fierce competition based on technological change and increasing withdrawal of the state from critical services. The pursuit of efficient utilization of labor has reduced the scope of labor-absorbing employment. The classical approach to employment creation is through capital accumulation resulting from a high rate of investment in productive activities, both private and state, with supporting infrastructure, both physical and social. Within this broad approach are various instruments, fiscal and monetary, that could swing the investment momentum in the desired direction. However, investment is not simply increases in the flow of capital investment over a unit of time but also a political economy variable in the macro sense, which to say the least is influenced by specific articulations among the state, dominant classes and social groups, and increasingly by the external international economic environment.

In this paper a basic framework is developed to link employment challenges and possibilities in India with contemporary capitalist dynamics. The argument is as follows: capitalism in India does not follow the classical trajectory due to “lateness” of entry to development and consequently more intense forms of state interventions. However, due to the incomplete agrarian transition in the context of truncated industrialization, the scope of state intervention to generate employment is reduced

substantially. To develop this argument further I introduce an analytical concept of compressed capitalism (D'Costa 2014a), which is a particular form of uneven development. The latter is an interlocking outcome of incomplete or stalled agrarian transition in India, a truncated form of industrialization with significant economic and social dualism, and the persistence of a vast petty commodity producing sector as a fallout of both incomplete agrarian transition and truncated industrialization. The technological leapfrogging opportunities under globalization ironically contribute to growth but constrain employment on a wide scale. The net outcome is a non-linear trajectory of capitalist development, far removed from the classical capitalist trajectory of increasing productivity in agriculture, continuous class differentiation, and expansion of wage employment in agriculture, industry, and services. Instead, the formal employment possibilities for the millions seeking wage work are extremely limited with informal, insecure work being the principal characteristic of late capitalist development in India. In this structural context the room for state intervention to create employment is highly constrained and thus the transformative potential remains only partial and enclave-like.

The rest of the paper is divided into three main sections. In section two I briefly elaborate on the concept of compressed capitalism as it impinges on labor markets and the theoretical role of the state in development. The discussion is contextualized in the wider global capitalist system and emerging trends in labor markets in general and in India. In the next section I examine three main areas, namely, industrialization, agrarian transition, and the informal sector to demonstrate the limiting dynamics of late capitalism to generate decent jobs. Section four scopes out the space for state intervention by revisiting the three main areas of compressed capitalism and identifies broadly whether employment can be protected and created for the growing number of people entering the workforce.

2. Compressed Capitalism and Labor Markets in India

Theoretically, the starting point for development and thus employment is agrarian transition based on rising productivity in agriculture. The expectation is that agriculture will motor capitalist development by generating economic surplus for diversified non-agricultural activities in both urban, mainly manufacturing and rural areas. The

anticipated outcome is the decreasing economic significance of agriculture and the ascendance of industry that fundamentally would alter the structure of the economy and employment pattern. Empirically the significance of Indian agriculture in terms of its economic contribution has substantially decreased and as it will be illustrated later, the Indian countryside is now somewhat diversified and differentiated. However, if nearly half of India's working population continues to engage in rural work, with some evidence in non-farm work, it is apparent that Indian agriculture is characterized by low productivity and hence by inference cannot be a major driver of accumulation.

The other implication is that industrial growth is not rapid enough to "pull" surplus rural workers. A related question is if industry is not dynamic and a large number of people remain in the countryside what about the rest of the workers? While India may be known for its high value services exports such as IT and business, itself an anomaly for a poor country but consistent with late capitalism, it is clear that the bulk of the workers find themselves in the informal or unorganized sector. In the historical transition to capitalism the emergence of an informal sector was inevitable but with economic growth and diversification the sector in the OECD has largely dissipated with the expansion of formal, secure, and better paying jobs. However, for developing countries such as India, which has had substantial capitalist transformation the persistence of the unorganized sector clearly suggests that the classical transition mechanism is not working well and that the very nature of contemporary Indian capitalism is something we have not witnessed before. What then are the implications for employment and where and how the state could intervene to create jobs remain vexing challenges.

It is not fashionable these days to begin the analysis grounded in capitalism and its many forms, especially if the starting point is pre-capitalism. In fact, the standard practice has been to assume capitalism and its idealized western variant and not theorize contemporary forms of capitalism in different parts of the world that substantially deviate from the classical trajectory. In other words, homogeneity in the way contemporary economies are governed and capitalist markets coordinated through institutions is presumed. The differences among national economies are explained by the variability in their coordinating mechanisms. This perspective, broadly labeled the "varieties of capitalism" or interchangeably "comparative capitalism" has created

considerable traction in the scholarly community trying to explain the workings of capitalism worldwide but at the national level (Hall and Soskice 2001). While there is much to laud in this perspective since the framework theorizes capitalism as a system with its multiple manifestations politically and institutionally as opposed to the apolitical standard economic explanations VOC has a number of serious shortcomings.

Here I mention only two. First, the very assumption that capitalism takes the advanced form as discussed by VOC is erroneous. While advanced capitalism is reflective of what the institutional characteristics of a well-functioning system could be, including only the highly formed capitalist economies for analysis provides only a partial view of the possible. In this selective focus a vast part of the world is excluded for the simple reason that they are not part of advanced capitalism. But should a residual category be attributed to these “transition” (to capitalism) economies? What is the basis by which we could confidently say they are moving toward some advanced form of capitalism? Further, what does it mean to be advanced when new forms of economic, social, and political problems plague the rich economies today?

Second, VOC does not have much to say about late industrializing societies whose social formation is both backward and advanced, the classic dual economy problem. Aside from the exclusion of late industrializers in the discussion of “variety of capitalism”, the vastness and the persistence of the informal or unorganized sector in the developing world cannot be theoretically conceptualized in this perspective. This poses an empirical dilemma for the transition problematic since the informal sector in developing countries is not a transitory phenomenon waiting to be wiped out through sustained economic growth and development. Rather this sector is not only expansive accompanying economic growth but there is also a vast pool of “floating” people whose prospects for employment is at best dire in an increasingly competitive, capitalist economy, let alone being secure and decent. If the structure of labor markets is so vastly different from the early industrialized economies the question is not just why but how to tackle such uneven development in large late industrializing countries.

The handful of countries that has indeed negotiated this transition to advanced capitalism is few and far between. Japan, is the first non-western society to have made the complete transition to advanced capitalism though it retains many institutions that are clearly products of its pre-capitalist past. More recently, smaller countries such as

South Korea, Taiwan, and Singapore have also become rich. But these are countries when their transformation also took place at a time when the world economy was quite different. The former Eastern European countries and China and Vietnam are in the process of transition from state-led bureaucratic forms of socialism to one that is more market-led for good reasons. However, unlike Eastern Europe, China and Vietnam do retain their single-party regimes even as their economies are functionally capitalist. India is the other case where there has been a transition, away from a state-dominated economy to a market-driven one. However, both China and India have a large population, a sizeable portion in the countryside so a successful capitalist transition for these countries would mean, at the minimum, reducing not just the economic importance of agriculture, although that would be necessary, but also reduce the number of people dependent on agriculture and rural activities. The question is how to go about doing this or how might it happen in theory. The volume and type of employment is closely related to this possible outcome of agrarian transformation. Thus the dynamics of Indian agriculture cannot be ignored if one wants to seriously engage with labor markets.

The core of the argument of this paper is that the agrarian transition is either incomplete, stalled, or has simply reached a state of being that not too much can be expected from it. In the meantime the structure and functioning of the world economy has changed and the Indian economy is no longer immune to global influences. This has several implications. First, lack of dynamism in agriculture means economic destitution for many and thus the pressure on rural residents to sell off the land and migrate to urban areas for employment. Second, as many village level studies have shown (Vijay 2014, Ramana Murthy 2014), even if cultivation is not profitable for small owners of land they hold onto the asset because the alternatives are dismal (Bardhan 1989). They basically make do by working as wage labor on someone else's land, migrating temporarily, or falling into debt. Third, off-farm employment could be a source of income provided of course investments in such activities are made. The portfolio diversification of large landowners into non-agricultural investments such as retail business, local transportation, and so on could be such sources of employment.

The stalling of agriculture in the context of a changed global system and capitalist development in India has additional implications for labour markets. The world

economy today is substantially different from the immediate post-World War II period when economic growth and the rising standard of living in North America, Western Europe, and Japan was unheralded. Jobs were plentiful. Smaller East Asian economies exploited the global opportunities through domestic industrialization and exports, while larger economies such as India, China, and Brazil leveraged their large internal markets differently and pursued inward looking industrialization strategies (Griffin 1989: 100-131). Employment grew but more so in export-oriented countries because of labor absorbing manufactured exports. Under capital-intensive nature of production for the home market, few jobs were created. That said, the Indian state, like many others, fostered an industrial base and the necessary educational and other supporting infrastructure for this endeavor. This had, over several decades, two important structural effects, notwithstanding the overall poor performance of the Indian economy for nearly three decades since independence.

The first was the state's explicit support of Indian capitalists for their profit-making business thus leading to their maturity. Import protection, subsidies, production quotas, and the like were state instruments that sheltered Indian business in a captive consumer market and sometimes in a public procurement market. The second was the state's creation of an Indian middle class, whose small numbers as white collar professionals during the colonial period were further expanded through the post-independence Indian state's expansion in both administration and public sector production activities such as nationalization of banks in 1969 or the significant salary increases for government workers through various pay commissions (D'Costa 2005). These two developments on account of state actions in the past have contributed to a maturing capitalism in India, where Indian businesses are no longer insulated and are aggressive enough to make forays into the world economy. This means that Indian business today must also compete on the basis of price, quality, and follow up services and therefore compelled to adopt recent vintages of technologies for economies of scale. The growing Indian middle class, despite its heterogeneity in social, political, and economic terms is nevertheless an important driver of the Indian economy as well as foreign businesses. Their propensity to consume is high and changing consumption patterns are often influenced by international trends.

At the global level the characteristic of the world economy has also substantially changed. First, the rise of East Asia and now China and to some extent India and others, the traditional international division of labor for production and consumption has been substantially altered. Second, within this development class divisions have increased as income distribution has worsened across the board. This has had the effect of growth that is not shared, including but not limited to, massive pressure on the price of land for real estate, infrastructure, and productive activities such as manufacturing and mining. Consequently, land grabs through markets or sheer trickery have risen, pitting the small owners against the urban-based businesses and their state backers. The fluidity of land prices has created a speculative space for both parties but with asymmetric information and structural power of business the seller is often at the receiving end. Third, in this reshuffling of production and consumption new opportunities have arisen for both rich and poor countries. Fourth, technological change has been rapid and information and communications technologies have introduced radical shifts in nearly every sphere of life. It has also introduced the Luddite specter of automation and efficiency and thus substitutability or increasing redundancy of labor. Fifth, the diffusion of subcontracting and offshoring across national boundaries has destabilized labor markets everywhere. However, global value chains by which different segments of production are distributed across countries and regions have resulted in a variety of outsourcing arrangements that also include the informal and unorganized sector.

Based on these stylized account of the evolution of global capitalism we can now synthesize a particular kind of capitalism, namely a compressed form that does not conform to the varieties analyzed by the VOC framework. Compression refers to the combined presence of historical processes with contemporary economic forces. Thus the agrarian transition whereby the separation of land from the peasants as a precondition for capitalist economic (industrial) development has been historically necessary in advanced capitalist countries, is today incomplete in India and other developing countries. As large numbers of people continue to reside and depend on land with low productivity, agriculture cannot act as a source of economic surplus that would drive industry and other non-agricultural activities. Yet, in the meantime the aspiration to consume, to upgrade technologies, and to create wealth has pervaded the Indian economy and society and the pressure to acquire land for non-agricultural purposes (factories, real estate, infrastructure) has intensified. Not only are there bitter

contestations over land but in the face of dispossession by market forces, distress sale, or political coercion by way of the state's exercise of eminent domain, a steady stream of rural residents are joining the workforce as landless labor in rural areas and migrant workers in urban areas, while some are negotiating both. Together they are contributing to the vast and persistent informal sector, where many are simply without any work other than self-employment by distress of some kind.

The growth of the informal is a result of a complex mix of factors, not all of which can be disentangled. The dispossession of land and the agrarian crisis afflicting the Indian countryside is partly responsible for this development. However, from the demand side the initial industrial growth while acting as a magnet for rural workers continues to draw workers to urban areas even when economic growth slows down. In addition, the type of industrialization pursued and subsequent slowdown in growth, as discussed in the next section, did not absorb large numbers of unskilled workers due to the capital-intensity of production. Today, barring some labour-intensive sectors production of goods and services has become even more capital and technology intensive and hence even more employment unfriendly. Furthermore, cost cutting strategies by large producers have translated into outsourcing work to lower cost smaller firms and the informal sector. Paradoxically, under such a strategy, economic growth when narrowly derived results not in the disappearance of the petty commodity sector but its continued reproduction and expansion. Much of the new employment, something that is not absent in India, unsurprisingly takes place in the informal sector.

The view that if employment is indeed taking place in the informal sector then why should it matter if the state is able to foster employment or not. A libertarian argument would posit that it is precisely because of the failure of the state that, individuals through their own initiatives, find ways to earn a livelihood. Hence it would be prudent for the state to recognize the informal sector for its dynamism and provide the means, such as titling to land and property, for them to act as (petty) capitalists (de Soto 1989). While the incapacity of the state or the repressive aspects of the state over the lives of the poor and unorganized has been recognized, freeing the state from its responsibility to the poor is neither likely to formalize the informal nor would it be consistent with a democratic society. Further, as indicated later, even if the informal sector is left alone, which for all practical purposes it is since the sector does not come under the purview

of any regulations except for harassment by the police and petty government officials, the informal sector is not a source of capital accumulation. To imagine that under the status quo they would become dynamic capitalists and the severe social and economic duality that exists between the informal (or petty commodity production) and the formal would disappear, is a stretch, especially given the larger processes of dispossession in the context of an incomplete agrarian transition and limited formal employment opportunities in manufacturing

In the context of an incomplete agrarian transition and the reproduction of an expanding informal sector, it is theoretically possible to have a small but dynamic public and private sectors. In fact, both the state and the private sector are important in creating a complementary partnership in the modern industrial sector even if historically the weight of each of the two players has varied over time and across nations and sometimes they have worked at cross-purposes. For India, like many other late industrializers, the role of the state to “escape from economic backwardness” has been significant, though doubts as to the veracity of transformation continue to persist. Nevertheless, the interventionist state persists but with far less teeth and autonomy and much of the state commandeered economy has given way to greater market forces and private ownership. Where the state continues to have an influence is in the area of infrastructure, technology, and where there is feasible increasing deregulation of the economy to create a dynamic economy and contribute to the commercial and technological maturity of the capitalist class. Hence, high growth sectors in a milieu of a slow growing rural economy, accompanied by dispossession of land and a persistent petty commodity sector, cumulatively and collectively comprise compressed capitalism or a particular form of uneven and combined development.

3. Late Capitalism and the Employment Question

3.1 The Limits of Industrialization Strategy

One of the common strategies among several relatively large and/or ambitious countries has been import substitution industrialization (ISI) as a way to “escape from economic backwardness”. Details of industry promoted as well as timing and length of ISI have varied across countries but the common element has been to promote national economic

development through state intervention. For India, as in others, planning was a central instrument of intervention for large-scale industrialization. The motivation was political, namely, to create a “self-reliant” economy as a response to India’s economic regression under colonial rule and inseparably to prop up capitalist development. It is pointless to debate whether the political motives trumped the economic aspirations since the two went hand in hand and as a joint project between the Indian state and private capital. Employment generation through industrial investments was assumed, not explicitly stated as an objective, at least initially. The agricultural sector, which received sporadic state attention, was recognized as significant source of livelihoods but as a whole, despite some important gains, has largely failed when it comes to employment (see next section below).

India’s industrialization was a “big push” program with large investments in key heavy industries such as steel, mining, machinery, fertilizers as well as infrastructure. The idea was straightforward: the state will provide the critical inputs for other sectors, mostly owned and managed by the private sector, thus effectively generating backward and forward linkages through the multiplier effect. The private sector assured of inputs would make profitable investments in mostly consumer industries. Employment was to be ramped up through such investments. The public sector leading the heavy industrialization charge did generate substantial well-paying jobs and the spillover effects into the private sector also led to employment. Since the public sector was viewed as a model employer such jobs were coveted through both featherbedding and “sons of the soil” employment practices in a number of public sector projects (D’Costa 1999:104). But as discussed below the impact on employment of the state-led industrialization program under the ISI strategy was limited (Figure 1). Not only was ISI intrinsically biased against employment due to the capital-intensive nature of investments, India’s particular form of ISI and the environment in which it was promoted worked against rapid economic expansion and the absorption of labor.

There has been much discussion on the role of the state in the economy. Setting aside the ideological rationalization for the arguments for and against the state, pragmatism suggests that the state is necessary for the functioning of a capitalist economy. The complementarity of public and private investments means that some shared institutional arrangement is critical for coordinating the economy. In reality planning for

industrialization was such an arrangement, as enshrined in the 1944 Bombay Plan, under whose umbrella the nascent capitalist class and the would-be political leaders of an independent India agreed to such a division of labor. That planning for development has largely failed, although planning for self-reliance succeeded (Kelkar 1980) is by now a relatively familiar story. However, the causes of developmental failure have been attributed to two major kinds of explanations: the micro-level inefficiencies induced by unproductive government regulations on economic activity (Bhagwati 1993); and the macro political economic and structural impediments to a dynamic industrial economy (Bardhan 1984, Byres 1994, Bagchi 2002). Consequently, employment growth has suffered despite maintaining a substantial rate of investment in the initial period of planning for industrialization.

The shortcomings of the ISI strategy across the developing world have been well documented (Dietz 2014). The issue is not that ISI is faulty to begin with as some multilateral institutions such as the World Bank has maintained on the ground that it might violate the country's comparative advantage. Given that some states such as South Korea have demonstrated a carefully calibrated ISI strategy that led to its highly successful export oriented industrialization strategy suggests not an either or option but rather a judicious combination as well as sequencing of policies. Rather the effectiveness of ISI has to do with the type of industry promoted and the length and depth of protection extended. The latter is clearly a political economic matter since protection of capitalists when selective is suggestive of the nature of the state-business relationship and the degree of state autonomy and state capture.

Furthermore, planning for economic transformation necessarily involves the agrarian question (Byres 1994), that is, the importance of making agriculture productive and a source of economic surplus for industrial dynamism. The significance of agricultural transformation to escape from economic backwardness cannot be overstated since in theory and by experience it can be a source of capital and labor and also act as a market for industrial products (Bhattacharya, Abraham, and D'Costa 2013, also see next section). That this link did not widen and deepen is part of the story of slow economic growth and limited employment in India. However, the absence of a dominant capitalist class to drive economic progress has been a major structural deterrent to foster a dynamic industrial economy, while the grip of non-capitalist classes thwarted land

reforms and a more progressive economic development path (Bagchi 2010, Bhaduri 1983). Whether it was Kalecki's intermediate regime (lacking entrepreneurs), a fragmented state (Bagchi 1991, Kohli 2009), or the conflicts between the rich peasantry and urban upper classes, the Gramscian mobilization of consent of dominated groups, and the conflict between state-sponsored accumulation and legitimation (Chatterjee 1994), the net result has been a failure of planning for industrialization and thus economic development. In this context employment, despite the initial spurt due to rapidity of investments, failed to correspond to the growing demand for it.

Specific to ISI there are several general shortcomings (see Griffin 1989), some of which have a direct bearing on employment. Aside from the bias against agricultural infrastructure investments, subsidies and tariff protection have reinforced capital-intensive production since the Indian variety of ISI promoting capital goods is capital-intensive to begin with. The bias is also against labor-intensive firms, where employment elasticity with respect to output tends to be greater compared to large firms, all others constant. The demand for tertiary education, especially technical education for industrialization, also promoted by the Indian state, has also undercut more generic universal education for the masses, creating not only inequality but also little employment opportunities for the unskilled and semi-skilled. The leapfrogging made possible by the state for big business in specific industrial sectors induced capitalist maturity and thus India's formal capitalist enterprises that are increasingly global in nature. However, they paradoxically sit uncomfortably with forms of production systems, technologies, and social relations in agriculture and the informal sector that are different, distant from, and yet interconnected to this formal capitalist system.

3.2 Agrarian Transition and Employment

As alluded to, above, for dynamic capitalist development resolving the agrarian question theoretically is a necessary step. Empirically as well such has been case with those societies that have attained high levels of per capita income and structural change. Historically the transition question was mostly resolved through primitive accumulation, where the wresting of land away from peasants became a hallmark for jumpstarting agrarian capitalism and thus a source for capital in general. Mercantile

trade through unequal exchange and colonial plunder also contributed to the early foundations of global capitalism. For post-colonial societies the experience of agrarian transition has been largely incomplete since agriculture under colonial domination was fundamentally reorganized to serve imperial interests. British pursuit in maximizing revenues from land fundamentally altered the class structure in the countryside, creating not only *zamindars*, a new class of landowners but also reinforced the grip of feudal relations in the countryside and reoriented agriculture toward exports of cash crops to serve British needs. In addition, the “home charges” for maintaining the British government in India drained substantial economic surplus from the country, truncating the potential links between agriculture and industry. Barring a few East Asian economies (Japan, South Korea, Taiwan) and arguably China (see Cai 2008) the agriculture sector for employment and livelihood continues to be relevant. What is noteworthy is that the economic importance of agriculture in India, consistent with capitalist development, has declined substantially (Figure 1) presenting an unusual dilemma with millions of rural residents eking out a living due to low productivity of agriculture.

Under the aegis of the industrialization drive for self-reliance the employment issue in agriculture has largely taken a back seat. Similar to industry, the concern for self-sufficiency in food has driven agricultural policy. Famine in the 1960s and the heavy reliance on US PL 480 for grain imports pushed a technological fix in Indian agriculture. The success of the green revolution in India has largely solved the self-sufficiency challenge. However, it has not resolved the agrarian question. On the contrary, in the absence of land reforms, demographic pressure, and monetization of the rural economy, again consistent with capitalist development, there has been class differentiation but without a robust accumulation dynamic (see Bharadwaj 1985, Bardhan 1989). A growing class of landless wage workers (or depeasantization) has been on the rise, while the grip of large landowners has been reinforced by state’s concern for food security and the resulting subsidies cornered by the rural dominant groups. Agrarian accumulation has been selective, with some asset diversification to non-agricultural activities in the countryside. However, there have been few alternative employment opportunities for those with small parcels of land especially when industrial employment has been limited. As a result, rural-urban migration has been one outcome of rural distress, while the other in a paradoxical way has been the desperate

attachment to tiny plots of land precisely because of the limited income-earning alternatives.²

There is considerable distress in India's agriculture as evident by small owners of land becoming laborers. This development is effectively dispossession without proletarianization, with considerable "labor-tying" that acts to control workers (Bardhan 1989). Today rural indebtedness is rife (Shetty 2011, Rao 2011) and can be explained by the exercise of structural power in the countryside, which constrains "allocative efficiency" (Bardhan 1989: A-22, Bharadwaj 1985: 11). By incurring debts the cultivator is often at the mercy of the creditor (landlord) to plant specific crops or is prevented from finding alternative higher wage work thus restricting the development of markets. The paradox is not the absence of capitalism that explains such features of Indian agriculture but rather its particular form that has evolved over time through institutional legacies, colonial and post-colonial policies toward agriculture, and more recent developments under state neglect and withdrawal and globalization. It is no surprise that pre-capitalist labor control features persist in many parts of India despite capitalist growth and diversification in the countryside.

One of the peculiar features of Indian agriculture is the reluctance of small landowners to abandon cultivation when it is financially not remunerative. Aside from the perceived risks of associated with the lack of alternative livelihoods, these small producers (are able to) hold on to their land because of remittance incomes earned from non-agricultural sectors, whether in the rural areas (likely to be small) or from urban work (Bharadwaj 1985: 16). Even as recently as 2014 such behavior has been documents in villages in the state of Andhra Pradesh (Vijay 2014, Ramana Murthy 2014). Employment in this case is a combination of self-employment in cultivation and wage work in non-agricultural activities. This development has a debilitating effect as it slows down rural differentiation by tying people to the land and limits technological adoption since small-scale cultivators find it daunting for more dynamic accumulation in agriculture itself.

² The recent fall in the absolute size of the agricultural workforce from 343 million in 2004-05 to 337 million in 2009-10 might suggest a belated agrarian transition (Thomas 2012: 39, 41). However, the size remains large with nearly 340 million workers and given the structural conditions in rural areas largely impoverished, hence it is not a transition but a state of being, what Bhardawaj (1985: 23) in a related context terms "muted" or "truncated" capitalist relations in the countryside.

Employment in the agricultural sector is largely self-employment (in the case of owners of land) and casual work (in the case of landless residents). However, due to the precariousness of many cultivators who own land, either because of smallholdings, indebtedness, or other sources of financial hardship, many owners of land hire themselves out to other cultivators thereby being both self-employed and casual worker. While the employment circumstances in the agricultural sector has waxed and waned, the trend in agricultural employment is quite clear (see Table 1). It remains a large source of rural employment even as non-agricultural employment in the countryside has gradually expanded (Unni 1998: A37). Agriculture is not the driver of the Indian economy rather it is the urban-based non-agricultural segment. Furthermore, the link between agriculture and industry is weak, making the urban economy a driver of the agricultural economy also weak. Barring a small group of owner-cultivators and large landowners earning a livelihood from agriculture is precarious at best and a cause for destitution at worst. Non-agricultural employment, while a promising avenue, has been much too slow to absorb those leaving the agricultural sector (Unni 1998). In fact the rural non-farm sector absorbs surplus agricultural labor, which is largely “distress-induced” (Vaidanathan 1986). Today land as an asset has become alienable and pledgable for mortgage mainly because of rural distress and not because agriculture has become more efficient. This may be likened to primitive accumulation but in a limited way since dispossession of peasants (alienation) through coercion or market exchange is not necessarily leading to widespread agriculture based accumulation, rather as many studies indicate dispossession is a result of a severe agrarian crisis plaguing the Indian countryside (Reddy and Mishra 2011, Ramakumar 2010, Patnaik 2007).

The role of the state in overcoming structural bottlenecks in rural areas is thus quite constrained. On the one hand, the rural structures of power continue to wield considerable clout over the state. Weaning away large landlords from state subsidies is a political-electoral challenge. On the other hand, introducing any form of redistribution is politically and practically challenging since the fragmentation of land has reached acute proportions. It would be difficult to identify and consolidate “surplus” land contiguously, above a set limit for redistribution to landless peasants and small holders. Under the current climate of land rights and regulation the price of land and the conditions of sale and purchase are prohibitive and cumbersome enough to warrant considerable conflict between landowners, business, and the government (often

representing business and real estate speculators). With the fiscal burden on the government much too high to adequately compensate sellers of land for the loss of their livelihoods and the absence of alternative sources of income many land transactions remain contested, in limbo, and in effect lock in small producers to precarious agriculture.

3.3 Informality as Employment of Last Resort

Historically primitive accumulation separating peasants from their land has contributed to rural to urban migration, the rise of the informal sector in both rural and urban areas, and with sustained economic development the dissolution of the informal sectors. In late industrializing societies such as India in the absence of an agrarian transition but continuing crisis and dispossession on the one hand and a particular form of capital-intensive industrialization on the other have been a perfect recipe for the sustained expansion of a petty commodity producing sector, closely corresponding to but not equivalent to the informal (unorganized) sector. Rather than a temporary phenomenon, for post-colonial societies such as India the informal sector is not only a permanent feature but has become the most important employment source under economic growth. The precariousness of jobs in this sector characterized by low wages, low productivity, low skill, and insecurity suggests that late capitalism works differently because of compression of processes and selective leapfrogging in technologically dynamic sectors through state intervention and capitalist maturity.

As in the rural areas where much of the employment is self-employment, the urban informal sector is increasingly comprises self-employment (Jeemol and Raveendran 2007: 197-198). The persistence of the informal sector is presented in Table 2. Aside from the sheer scale of employment in this sector approximately 92% of all employment, its growth, and a high share of distress-driven self-employment suggests a labor market that is here to stay for a long time. The informal sector has been variously interpreted. The petty commodity sector is not independent of the formal capitalist sector. Rather, petty commodity producers (PCP) act as a buffer (reserve army of labor) to keep wages low in the formal sector. Whether it does keep wages low is an empirical matter to be investigated in specific labor markets but intuitively if the informal sector adds to the total supply of labor, assuming some substitutability of informal workers

for formal workers, we can expect wages in some formal jobs to be under threat. This is especially the case in rural areas where the wage rate is often the going rate under the structural domination of large hirers of rural labor. In some regions, mechanization has added to the glut of rural workers thereby keeping wages competitive. However, jobs in the formal sector, which are increasingly capital- and technology intensive, are unlikely to be good substitutes of informal workers. There are some informal type work that could be in the formal sector such as various types of low-level service jobs such as janitorial, security, and the like. Although some of these service jobs may require literacy and some education the informal sector can supply such workers.

Additionally, as many urban economies in the developing world indicate, the vast informal sector is a major producer of many wage goods and provide a wide range of services for the informal and formal sectors, which have the combined effect to keep cost of goods and services low. While this is not tantamount to the effect of a reserve army of labor, which is really an exercise of structural power of capital against labor, the informal sector by keeping costs low can be said to “subsidize” the expanded reproduction of the formal sector. The reduction of wage costs is further introduced through informalization of the formal sector itself through the hiring of contract, part-time, and temporary workers (see Jeemol and Raveendran 2007: 196).

There is, however, more to petty commodity sector. The growing landlessness and the inability of the industrial sector to create large-scale labor-intensive manufacturing industries have created a sub-segment in the labor market, which is argued to be outside of capitalist relations (pre-capital a la Sanyal (2007), Samaddar (2008), Chatterjee (2008). Members of this sub-segment are considered to be a “floating” or those that are excluded from the circuits of capital. In reality this represents the destitute population, itinerant vendors, and recent arrivals to cities from the countryside. Their entry to the informal sector proper is possible for some since entry barriers are low. However, lacking skills, education, and relevant work experience the income from such jobs is likely to be low. As Corbridge, Hariss, and Jeffrey (2013: 85) point out that the “excluded” labor force may not be necessary for growth but could have a depressing effect on the informal wages.

4. State Intervention for Employment Creation

So what can the Indian state do to create employment? The fact that India's capitalism is not the path that the early industrializers have traversed poses considerable challenges on the employment front. With agrarian transition incomplete or stalled, employment in the countryside is intrinsically limited, except perhaps in the non-agricultural spheres in the countryside. With some differentiation in the countryside, meaning the emergence of capitalist farmers and wage labor, allowing the former to accumulate some capital could lead to greater diversification of their portfolio and generate corresponding employment. But this cannot be stretched too far since accumulation on an expanding scale in the rural non-agricultural sector is likely to spillover into the urban sphere, while rural incomes must be high enough to support a viable and growing off-farm employment. Some output from off-farm activities such as handicrafts and artisanal work could be supported if their links to urban markets are strong.

Strengthening this segment through state investments is one option. The other has been the Mahatma National Rural Employment Guarantee Act (MNREGA), whereby one hundred days of employment per year is guaranteed to any member from a rural household willing to do manual work. The MNREGA program is laudable for targeting the rural poor. However, MNREGA has had mixed results with some states doing better than others. More importantly, this employment program is a stopgap measure of ensuring a minimum income for rural residents and avoiding more drastic consequences of poverty and malnutrition and not aimed at creating agro-entrepreneurs and capitalists. While immediate rural infrastructure development may result through manual labor employed through MNREGA, it is unlikely to have long-term consequences on agricultural productivity. Instead it may very well keep poor landowners and landless workers tied to land in a precarious form. There is also no guarantee that program will not be discontinued.

On a larger transformative scale, land reforms is no longer on the political agenda other than the current neo-liberal version designed to facilitate land transactions for non-agricultural purposes. It is also increasingly less feasible due to the fragmentation of land holdings. The new land reform proposition (amendments under negotiation) is ostensibly designed for capitalist development through large-scale investments in industry and non-agriculture uses of land such as real estate and smart cities. Thus it is

envisaged that the urban activities would pull and push people off the land and presumably move the economy on a more dynamic capitalist footing by rendering land and thus cultivation as a less attractive activity. The dispossession and displacement that is implicit in this kind of land reform will continue to add to landlessness and to an expanding petty commodity sector in urban areas. This dynamic reverses the classical transition where wage labor in the countryside is the immediate outcome of land grabs or primitive accumulation and the emergence and subsequent disappearance of the petty commodity producer sector. Instead, the larger transformation currently in process is the reproduction of small-scale and unprofitable agriculture and the persistence of PCP as opposed to dynamic agriculture resulting from land redistribution and thus dynamic industry and employment growth.

The petty commodity sector is a nebulous entity. It has myriad forms of labor arrangements, both market and non-market based, but it is not a source of capital accumulation (Harriss-White 2014: 984, 982, 990). In fact much of India's employment growth has been in the unorganized sector, most of it is PCP, where the presence of self-employment rather than wage employment is high, making the PCP less of a capitalist sector, a "dark space" according to Sanyal (2007) or pre-capital (Chatterjee 2008). While it is entirely possible that the PCP mostly operates on non-market lines and wage labor is significantly weak, it does not mean that the PCP sector is independent of capitalism (see Damodaran 2015: 1221). It may not generate capital but by and large it is linked to the circuits of capital (Harriss-White 2014: 990, D'Costa 2014a: 332). What this suggests is that Indian capitalism works in a way that also reproduces PCP under growth but is not by itself a source capital nor is it characterized by complete wage labor. It also suggests that the PCP cheapens wage goods production, thereby reproducing itself, and thus supporting capitalist profits in the formal sector.

Had employment in the informal sector in India been remunerative then the employment question would not have been that pressing. However, it has been pointed out that employment in the informal sector is mostly insecure, lowly paid, and comprises self-employment, which is more distress-driven than voluntary (Chandrasekhar 2007). The state's position has been to convert the informal sector to a formal one by making the sector more dynamic through various supply side inputs (see NCEUS 2007: 67-73). Since the Indian unorganized sector is characterized by small

firms (“tiny” sector) and the size of firms is becoming increasingly smaller, the general inference is that access to capital, skill development, electricity and other supply side inputs will enable small firms to become dynamic and by extension larger and market-competitive (see Chakraborty 2015: 55, Thomas 2013). This would presumably also raise wages or create the conditions of modifying insecure informal jobs to formal ones. Aside from the fact whether the smallness of firms is due to lack of the aforesaid inputs is an empirical matter but the fact remains that the average size of firms is becoming smaller not larger and self-employment is a predominant feature of PCP (Harriss-White 2014: 990). Hence, the stream of labor joining the PCP pool appears inexhaustible in the presence of a stalled agrarian transition and truncated industrialization. Furthermore, as Kannan (2014) has shown, transforming the informal sector to a formal one runs up against the Indian reality where formal jobs are increasingly being informalized, a phenomenon also witnessed in the OECD with public sector cutbacks and corporate strategy in reducing costs. For India, however, the informalization of formal sector jobs is a reverse development of not only what state intervention is meant to achieve with an already bloating informal sector but more importantly it is a reflection of Indian capitalism that reproduces PCP and blunts state intervention to create employment.³

The third pillar of compressed capitalism is the mature capitalist sector, largely incubated by the state since the post-independence period but one that appears to have run its course despite rapid expansion of a few select manufacturing and services sectors since the economic reforms of the 1990s. That India has been unable to create a viable and internationally competitive manufacturing sector has been widely acknowledged. However, the causes of industrial truncation are less clear and what is to be done is equally elusive. Here too supply side deficits seem to dominate the policy discussion. For example, infrastructure such as roads, communications, power, credit, and exchange rate fluctuations seem to be hurting the Indian manufacturing sector (Thomas 2013: 684-690). In addition, an oft-repeated refrain heard from both the

³ The calls for reforming labor regulations by capital is premised on the expectation that more investment will take place and thus more jobs created, which currently by assertion is not possible. Yet the hiring practices of business indicate increasing contract labor (Nagaraj 2007) nor have many manufacturing firms reached the upper limits of hiring that would not require government approval for retrenchment. Furthermore, as demonstrated by Chakraborty (2015), India’s labor regime remains flexible despite the absence of reforms because Indian businesses have found ways to hire casual and contract workers.

domestic and international business is labor market rigidity but a position that has been theoretically and empirically challenged (Nagaraj 2007, Chakraborty 2015, Thomas 2013 for Coimbatore labor market). There is considerable truth to the poor quality of Indian infrastructure and logistics industries compared to international standards. However, it is less clear if solving supply side bottlenecks will necessarily attract investment to the extent of being transformative, given the low average level of Indian demand in terms of purchasing power. These are features that are consistent with the expansive nature of PCP, and income distribution.

Even assuming output increases due to favourable input markets and absence of realization problems, the question remains if employment will commensurate with output growth. The widely acknowledged recent experience thus far has been India's predisposition toward jobless growth (Corbridge, Harriss, Jeffrey 2013: 94-97, Krishna 2014). Employment growth between 1983--1993-94 and 1993-94--2004-05 was 2.03% and 1.05% respectively. The empirical reality is that there is a broad mechanism by which inequality in India is worsening since economic growth is being driven more by the intensified use of capital rather than labor with market rewards accruing more to the owners of the former than the latter (Damodaran 2015: 1219). It may be pointed out that new jobs were created during the period of growth but many jobs were also destroyed as part of the pro-market reforms that led to increased growth in the first place.

According to Thomas (2013) the lacklustre performance in manufacturing employment has been the primary force in inducing "jobless" growth. The obvious question is why manufacturing or the organized factory sector in India is not expanding. While the absence of some critical inputs, alluded to earlier, contributes to the lethargy of the Indian manufacturing sector, there are also intrinsic processes that limit manufacturing employment today. For example, open markets mean international competitiveness of firms. As production becomes capital and technology-intensive, the impact on employment at the firm level is necessarily labor displacing, even if theoretically with technological change employment across the board could increase with increases in productivity. Hence, even Indian firms in a milieu of abundant labor are compelled to adopt recent vintages of technologies. The automotive and steel industries are a case in point with the adoption of robots and the continuous streamlining of steel production

through continuous processes, having a dampening impact on employment. Similarly, India's competitive pharmaceutical sector is highly automated.

Related to increasing capital and technological intensities is scale of production. Although small firms are known to generate the bulk of the employment, and in India's case by the informal sector, especially in the form of self-employment, the increasing capital and technology intensity in manufacturing dampen employment as a whole as firms, including Indian ones, to be globally competitive, must adopt large scale production facilities. The economies of scale in large mills reduce the cost per unit of output and minimize direct employment. Further, the skill requirements also limit the employment pool. Thus what might appear to be OECD characteristics of labor being displaced by capital and technology as costs increase, in labor abundant but skill-short India firms are also compelled to adopt capital-intensive production systems. Thus technological demands of capitalist imperatives as well as the conjunctural shift in structural power in favor of capital limits the scope for employment in the formal sector. The differential rewards to capital, made possible by changing production systems, and labor under weakening unions and growing informalization further reinforces employment retarding production methods.

There is one other dimension beyond the scope of this paper that structurally limits the scope of state intervention in India, namely, the global positioning of China in manufacturing capabilities and its control over world markets. While a complex simulation study might indicate the absorptive capacity of the world economy of the scale of exports of another China, intuitively employment through manufacturing exports is a tall order due to both lack of competitiveness and a slowing world economy. That new low-cost producers have been accommodated in the world economy is beyond doubt as industrial restructuring and upgrading have incorporated different parts of the world at different times. In the post-OPEC world East Asia and to some Southeast Asia have experienced economic mobility in the ensuing changing international division of labor. China is the most recent, disproportionately large, and successful case of economic mobility that has put other producers on the defensive.

Debates as to how China did it and why India is unable to have not produced clear answers. Aside from the usual supply side arguments alluded to above, the absence of a strategic, purposeful, and pragmatic vision for manufacturing in India is another

reason for its stalled industrialization. Further, much of the East Asian expansion has occurred under mercantilist and selective opening up of domestic economies in an expanding world economy, options that are today largely closed for India. Today the softening world economy puts India in a difficult position to pursue Chinese style manufacturing, let alone being able to quickly catch-up in technological, logistical, and commercial spheres for export markets.

Recent efforts by the government to promote national production by multinationals in India have yielded few projects but more importantly few employment-intensive activities. Thus far projects include defence and IT-related technologies, none of which are likely to have high employment-creating effects. The entry into IT and business services has provided another lucrative alternative for Indian business that has facilitated the bypassing of the manufacturing sector without destabilizing accumulation in the formal sector. However, these service jobs require tertiary, technical education and hence beyond the reach of most (D'Costa 2003, 2011, 2014b). In 2010, based on government data, financing, real estate, and business services employed a total of 10 million, suggesting that only a small fraction of this were in the IT sector (Thomas 2012: 45). Additional jobs are likely to be created no doubt but these jobs are more than likely to be low-wage, informal jobs in the formal IT sector.

5. Conclusion

This paper began with placing employment under capitalist development and demonstrated that the link between the two is increasingly trying because of the particular form of contemporary capitalism that is unfolding in India. Late industrialization with India's attendant structural legacies and institutions contributed to a form of capitalism that is compressed, which deviates substantially from the classical trajectory. While state intervention in industry and technology created a limited space for capitalist development and employment, the stalled agrarian transition and the expansive petty commodity sector contributing mostly to precarious forms of underemployment have undercut a more tangible impact of development. Thus the over-developed tertiary sector with capitalist maturity in the organized sector sits uncomfortably with a truncated form of industrialization and underdeveloped agriculture sector.

Broad areas of state intervention include but are not limited to labor-intensive manufacturing exports, resolution of contested land transactions without massive loss of livelihoods and displacement, the expansion of non-agricultural activities in the countryside, and the various critical inputs provision for the informal sector such as electricity, skill development, and credit. However, such reallocation of resources and realignment of state-capital relationship must necessarily account for the current for the balance in social forces at a time when capital has become singularly dominant in general but in India as well. Whether intervention in favour of industry and services can pull up the agricultural sector is debatable since the formal industrial and services corporate sector creates few jobs while agriculture and petty commodity production by and large create insecure informal work. The advantages of late industrialization through leapfrogging and capitalist maturity are outweighed by the growing duality and inequalitarian economic system in India.

Deregulation, labor flexibility, trade, and investment liberalization while arguably necessary cannot be sufficient. The short-term costs on specific sectors could be high. Rather ensuring the viability of Indian agriculture by introducing genuine land reforms that would go beyond the mere transfer of land from one desperate class to a class of speculators to one that established tight linkages between agriculture and rural off-farm work and urban industry. Furthermore, the state's provisioning of social services and continuing employment programs such as the National Rural Employment Guarantee Act while necessary are not sufficient to ensure a job-based rural capitalist dynamic. Wages paid under MNREGA meet government norms but the program itself acts to barely ameliorate precarious livelihoods. Encouraging the formation of large firms, while antithetical to immediate employment, could pull other smaller firms as suppliers, including some from the informal sector. Daunting as the employment task may be, the state must remake itself to revisit the radical versus the reformist approaches to generating employment. Otherwise the spectre of jobless growth will haunt India for a long time.

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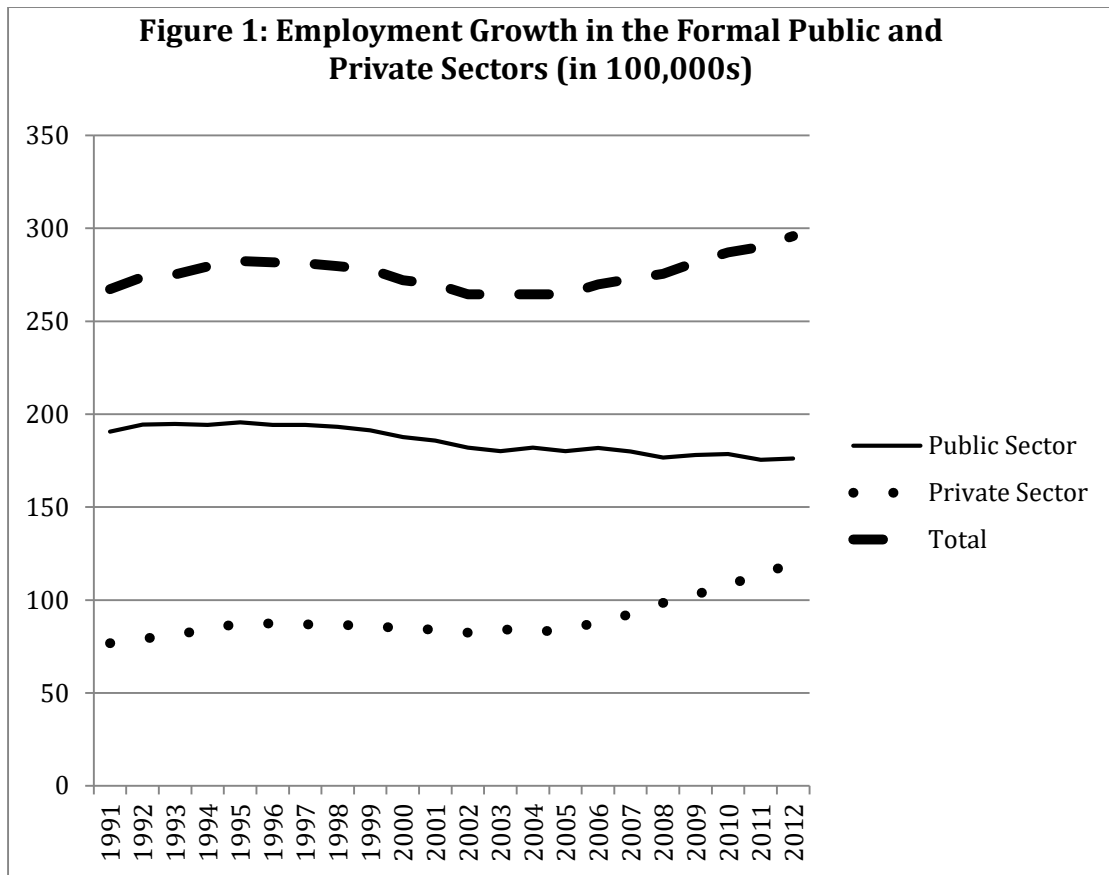


Table 1: Changing Distribution of the Workforce Across Sectors in India

Sectors	Number of workers (in millions and %)				
	1993-94	1999-2000	2004-05	2009-10	2011-12
Agriculture	241.5	246.6	268.6	244.9	231.9
% of total	64.6	61.7	58.5	53.2	48.9
Manufacturing	38.9	42.8	53.9	50.7	59.8
% of total	10.4	10.7	11.7	11.0	12.6
Other industries	15.8	20.4	29.4	48.3	55.3
Services	77.7	89.8	107.3	116.3	127.3
% of total	20.8	22.5	23.4	25.3	26.8
Total	374.0	399.5	459.1	460.2	474.2

Source: From National Sample Survey (NSS) rounds 1993-94 to 2011-12.

Notes: Until 2004-05, the absolute number of workers in agriculture in the country as a whole steadily increased, even though agriculture's share in total workers declined throughout the period from 1993-94 to 2011-12.

Table 2: The Persistence of the Informal Sector (% Employment)

	Organized		Unorganized		Total	
	2011-12	2004-05	2011-12	2004-05	2011-12	2004-05
Formal	45.4	52.0	0.4	0.3	8.1	7.3
Informal	54.6	48.0	99.6	99.7	91.9	92.7
Total	17.3	13.0	82.7	87.0	100.0	100.0

Source: Niti Aayog in Economic Survey 2014-15, p. 136.