

**Economics  
Seminar  
Series  
2018**



**SOUTH ASIAN UNIVERSITY  
FACULTY OF ECONOMICS**

**Seminar**

***Informality in the formal sector: Evidence  
from Indian manufacturing***

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***Indian Council for Research on International Economic Relations***

**Date:** March 9, 2018  
(Friday)  
**Time:** 2:30 p.m.  
**Venue:** FSI Hall, Akbar Bhawan  
Satya Marg, Chanakyapuri, New Delhi

**All are Welcome**

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**ABSTRACT**

The employment structure of India's organised manufacturing sector has undergone substantial changes over the last decade with a steep rise in the use of contract workers in place of regular workers. Much of the existing literature has attributed the widespread use of contract labour to India's rigid employment protection legislation. Using plant level data from the Annual Survey of Industries for the time period from 2000-01 to 2011-12, we find that in addition to labour market rigidities and the existence of a wage differential between contract and regular workers, firms have another important incentive to hire contract workers. Firms appear to be using contract workers to their strategic advantage against unionised regular workers to keep their bargaining power and wage demand in check. Importantly, the strength of this 'bargaining channel' varies across firms depending on their capital intensity of production, size and existing contract worker intensity. Further, we do not find contract workers to have an adverse effect on firm productivity, although their productivity appears to be lower than regular workers in some cases