

UNDERSTANDING WORKER PRODUCTIVITY

The Hindu

Paper - III (Indian Economy)

Infosys founder N.R. Narayana Murthy sparked a debate last week by urging young Indians to work 70 hours per week, citing Japan and Germany as examples of countries that grew because their citizens worked harder and for longer hours to rebuild their nations in the aftermath of the Second World War. He further noted that India's worker productivity is one of the lowest in the world.

What is worker productivity? Is it the same as labour productivity?

The only conceptual difference between the two is that the 'work' in worker productivity describes mental activities while the 'work' in labour productivity is mostly associated with manual activities. Productivity of an activity is usually measured as the quantum of output value per unit of labour (time) cost at a micro level. At a macro level, it is measured in terms of the labour-output ratio or change in Net Domestic Product (NDP) per worker in each sector (where working hours are assumed to be 8 hours per day).

However, in certain types of services, especially ones involving intellectual labour, measuring the value of the output independently is very difficult, so the income of workers is usually taken as proxies to suggest productivity. Therefore, the statement by Mr. Murthy, which conveys that by increasing the total number of working hours, productivity or the value of the quantum of work done per unit of labour (time) can increase, looks fallacious. The only way this can happen is if the additional quantum of work done and output value produced has no commensurate pay. While this may seem normal for someone who wishes to maximise profits, it can otherwise be seen as a repulsively crude appetite for increasing profits at the expense of the workers.

Productivity in a more sophisticated usage is an attribute not of time but of skill. Human capital (a more reductionist version of Human Development) including education, training, nutrition, health etc., enhances the ability of labour to become more productive, or churn out greater quantum of value within the same number of working hours. Based on this understanding, the reduction in the number of working hours does not hamper the value of output produced, but in turn enhances the leisure and quality of life of workers in real terms, while the value added to the economy could still be increasing, nominal wages remaining the same.

Is there a direct link between worker productivity and economic growth?

While an increase in productivity made through any sector is likely to affect the value added and the accumulation or growth in the economy, the relationship between the two could be quite complex.

If by prosperity we intend to suggest prosperity of the workers, this may or may not be true. In 1980, India's Gross Domestic Product was about \$200 billion, which by 2015 exceeded \$2,000 billion. However, in terms of the distribution of income across groups in India, Lucas Chancel and Thomas Piketty have shown that during 1980-2015, where the share in the national income of 40% of the middle income group and 50% of the low income group in India had decreased from 48% to 29% and 23% to 14% respectively, the top 10% income groups share had increased from 30% to 58%.

This effectively means that the income groups in the bottom 50% in India experienced an increase in their income from 1980 to 2015 by 90%, whereas income groups in the top 10% experienced an increase in income by 435%. The top 0.01% has had an increase of 1699% percent from 1980 to 2015 and the top 0.001% have had an increase of 2040%. Chancel and Piketty note that the increase in incomes or the prosperity of the richest people is not quite explained by their productivity. On the contrary, this prosperity is either linked to hereditary transfers of wealth upon which the rich are earning yields (he called this patrimonial capitalism) or to the 'super managerial' class who seem to be deciding their own exorbitant pay packages, quite arbitrarily, not related in any way to their productivity. While Mr. Murthy might have worked quite hard, the class he belongs to in general seems to be holding a value, which in no way is either linked to productivity or value contributions based on skill and effort. This delinking of productivity and rewards is in fact one of the worries about the legitimacy of the capitalist class order in contemporary times which Piketty expresses.

Does India have one of the 'lowest worker productivity' in the world?

As incomes are seen as a proxy for productivity, there is a fallacious inference about productivity of workers in India being low. The question as to why over the years, beginning with the 1980s, the share of wages and salaries have declined while the share of profits has increased, perhaps is linked to the informalisation of employment, labour laws and the development and regulation regime becoming unfavourable to workers.

Kronos Incorporated, a U.S based multi-national workforce management firm, has in fact observed that Indians are among the most hard working employees in the world. On the other hand, Picodi.com an international ecommerce platform has observed that India ranks one of the lowest in terms of average wages per month globally. Therefore, Mr. Murthy's statement does not seem to be backed by facts. It seems to be part of an effort to push further labour reforms unfavourable to the workers by creating a false narrative.

Interestingly, Mr. Narayana Murthy has found support from Sajjan Jindal, the Managing Director of JSW Steel. While the Chinese are producing steel and selling them at a 40% lower cost, Indian entrepreneurs in this sector, and the metal sector in general, are choosing to move out of higher end activities of manufacturing to the back-end activities of mining and smelting. Here it is the entrepreneurs who must take the blame for low productivity.

Does having a high informal labour pool complicate the calculation of worker productivity and its correlation to GDP?

Yes. Informal employment in both the unorganised as well as the organised sectors has been on the rise through the course of economic reforms. The dubious claim of increased formalisation has been limited only to bringing activities under the tax net. This has however had no impact on improving labour standards or working conditions.

Even in the formal manufacturing sector you find an overwhelming presence of Micro-Small-Medium Enterprises (MSME) which are labour intensive. Studies have also found that there is a systematic process of cost cutting through wage cutting in these enterprises. However, since high labour

productivity combined with low wages fetch high profits, there can be no other explanation, but for exploitation of the workers, for why this segment becomes the preferred mode of investment. In fact, large number of large-scale corporations have been found to outsource and sub-contract production to these smaller units, in India as well as globally. This is true with the IT sector as well.

Are the comparisons of India's economy with those of Japan and Germany economies apt?

These comparisons don't seem to enable serious analysis. Japan and Germany are neither comparable in terms of the size and quality of labour force nor in terms of the nature of their technological trajectories or their socio-cultural and political structures. India presents a unique case and any arbitrary comparison would only lead to dubious analytical inferences and fallacious policy prescripts. Enhancing social investments, focusing on exploring domestic consumption potential for increased productivity with a human centric assessment of development achievements is the way to a more sustainable and desirable outcome.

Expected Question

Que. Consider the following statements-

1. India ranks one of the lowest in terms of average wages per month globally.
2. The income groups in the bottom 50% in India experienced an increase in their income from 1980 to 2015 by 90%.

Which of the statements given above is/are correct?

- (a) Only 1
- (b) Only 2
- (c) Both 1 and 2
- (d) Neither 1 nor 2

Answer : c

Mains Expected Question & Format

Que.: 'Infosys founder Narayana Murthy last week advised young Indians to work 70 hours a week to accelerate the country's development.' Analyze the relationship between labor productivity and growth in the economy in the context of this statement.

Answer Format :

- ❖ Explain the statement of Narayan Murthy in the first part of the answer.
- ❖ In the second part, analyze the relationship between labor productivity and growth in the economy.
- ❖ Finally give a conclusion giving suggestions.

Note: - The question of the main examination given for practice is designed keeping in mind the upcoming UPSC mains examination. Therefore, to get an answer to this question, you can take the help of this source as well as other sources related to this topic.