Remembering Ajit Kumar Ghose (1947–2023)

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The intellectual contributions of Ajit Kumar Ghose in the field of labour economics have been far-reaching. Focusing on the interlinked themes of dual economies and structural transformation, this obituary reflects upon the salient features of Ghosh's many intellectual contributions towards studying the Indian economy.

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Ajit Kumar Ghose, who passed away earlier this year, was one of India's foremost labour economists. Ghose had a long and distinguished career at several institutions of national and international importance, most significantly the International Labour Organization, where he worked for over 25 years. Most recently, he was a honorary professor at the Institute for Human Development in New Delhi. I had the good fortune of interacting with Ghose on a few occasions in the recent years. He was a soft-spoken and humble man who carried his vast learning and sharp intellect lightly, reminding one of the Sanskrit proverb, नमन्ति फलिनो वृक्षा नमन्ति गुणिनो जनाः (virtuous people bow low like a fruit-laden tree).

Over his four-decade-long career, Ghose worked on a wide range of subjects, including economic growth, globalisation, structural transformation, employment, as well as foreign trade and investment. He published several important papers in this very journal, including an early comprehensive analysis of the dynamics of the Indian workforce over the decades of the 1980s and 1990s in which he warned of the employment crisis to come (Ghose 1999). In an article published just a month after he passed away (Ghose 2023), he provided empirical evidence as well as theoretical explanation for the exclusive nature of India's growth in the period between 1993 and 2017. In a 2006 paper, again published in this journal and titled "Economic Growth and Employment in Labour-surplus Economies," he provided an insightful extension to the well-known model by W Arthur Lewis.

A brilliant and clear thinker, Ghose's slim volume, *Employment in India* (Ghose 2019) should be a required reading for anyone who wants to understand the Indian labour market. Especially on display in the book is his lucid and terse style of writing that communicates difficult ideas in a few words. In fact, whenever I assign his writing to students, I call their attention to how clear thinking can lead to clear writing, with no wasted words, and tightly expressed ideas.

In all his work, Ghose addressed the principal concerns facing the Indian economy with a focus on employment. It will not be possible, in the course of this brief article, to summarise his many contributions. Instead, I focus on two interlinked themes that Ghose wrote extensively on—the peculiar character of dual economies and the importance of structural transformation.

On Labour Markets in Dual Economies

A point that Ghose returns to frequently in his writings (Ghose 2004, 2015, 2019) is that India is a dual economy with surplus labour. Hence, movements in standard labour market indicators such as employment growth, unemployment rate or wage growth are not reliable in drawing conclusions about improvement or deterioration in employment conditions. For example, unemployment is an option only for an educated minority of individuals who belong to relatively well-off households, and can afford to wait for jobs in the organised or modern sector. Hence, an increase in the unemployment rate only indicates a "longer queue" for organised jobs, which in turn is a result of a mismatch between growth of labour demand in the organised sector and growth in the educated labour supply. Thus, the rate of unemployment, a standard measure of labour market conditions in advanced industrialised economies, cannot provide information about the labour market conditions in general in India.

It is sometimes said that because of the problem of interpretation posed by the unemployment rate, it is better to look at the employment rate (percentage of working age individuals who are employed). But Ghose cautions against this as well. First, in a dual economy, he notes, employment growth is likely to be a result simply of labour force growth rather than an independent indicator of growth of labour demand. This is because the major part of employment comes from the subsistence or unorganised sector, where self-employment and casual labour are the main forms of work. In self-employment, labour supply is identically equal to labour demand (a self-employed person creates their own "job"). While in the casual labour market, the supply of labour "spreads across" available work, such that everyone has some work but no one is fully employed (or fully unemployed).

If the labour force grows faster than the working age population, say, due to distress-led entry of workers into the unorganised sector, the employment rate will rise. But it means nothing more than growth of underemployment, as an increasing number of self-employed individuals compete with each other lowering their individual incomes or as a larger number of casual workers compete for the same amount of work, with each ending up with less work. In other words, worsening rather than improving labour market conditions. This is indeed what happened in India on the eve of the pandemic (in 2018) when the employment rate for women increased even as earnings from self-employment fell in real terms.

Finally, conventional labour economics, again drawing on advanced industrialised economies, sees rising wages as an indicator of tightness and stagnant or falling wages as a sign of slackness in the labour market. This relationship is more complicated in economies such as India. Ghose notes that in both the organised and the unorganised sectors, at the aggregate level, labour supply far exceeds labour demand. In the former because most workers from outside the sector would strongly prefer employment there, and in the latter because the sector itself is a reservoir of surplus labour, reflected in chronic underemployment of casual workers. Thus, in neither market can wages be determined through demand–supply equilibrium. They must be exogenously given, in the organised sector by government regulations and norms (and to a limited extent by collective bargaining), in the unorganised sector with reference to output per worker in self-employment.

The last point may need some elaboration. Note that, in the unorganised sector, self-employment is the fall-back option for casual wage workers and casual employment is the fall-back option for the self-employed. Thus, over time, the incomes from the two activities will tend to equal one another.[1] Now note that earnings from casual wage work depend on the daily wage rate and the probability of finding employment on any given day. The wage rate can assume any value because the probability of finding employment can vary to equalise the income of the casual wage worker with that of the self-employed. This is an important point. It means that if casual wage rates rise exogenously (say, as a result of a change in the legal minimum wage) so long as the output or income per worker in self-employment remains constant, a rise in the casual wage rate cannot raise the average earnings of casual workers. Rather it may increase underemployment because some of the self-employed now seek casual wage employment. On the other hand, if output per worker in self-employment rises, either the casual wage rate rises and underemployment remains stable or underemployment falls while the wage remains stable or both outcomes may occur.

In sum, Ghose reaches the conclusion that our often-used indicators—unemployment rate, employment rate and wage rate—cannot tell us if employment conditions have been improving or deteriorating in the economy. So, what then should we be measuring or paying attention to? This brings me to his other main preoccupation—structural change.

Structural Transformation: Revisiting Arthur Lewis

In his 2010 *EPW* paper, "Reinventing Development Economics," Ghose points out:

> Development used to mean a process of structural transformation associated with gradual disappearance of dualism and surplus labour. Today it simply means growth of per capita income. This change of meaning reflects a paradigm shift in development

> economics; the Lewis framework has yielded place to a "monoeconomics" framework. The latter assumes away the structural differences between developing and developed economies, thereby eliminating the distinction between development and growth. Development economics then becomes concerned with explaining why some countries have remained so much poorer than others. (p 41)

He argues in favour of the Lewisian approach where economic development is viewed as a "process of transformation of a developing economy into a developed one, not necessarily in terms of output or income level but as a process of reduction (and eventual elimination) of dualism and surplus labour." Encouragingly, since these lines were written, this approach has made a strong comeback in development economics as a result of the work of economists such as Deepak Nayyar, Dani Rodrik, Justin Lin and, of course, Ajit Ghose, among others.

From the structural change perspective, the answer to the question at the end of the previous section is that we should be paying attention to the change in employment structure, what Ghose called "the Lewis Process." Simply put, this means looking at what is happening to the share of the organised or the formal sector in total employment. This is commonly understood—even if it gets lost sometimes in the short-run debates over the unemployment rate. But Ghose goes further and argues that the Lewis Process is associated with improving employment conditions only if output per worker in the unorganised sector is not declining. Here, he once again comes back to a main preoccupation—productivity growth in the subsistence or unorganised sector.

To understand the significance of this, recall that even if workers move from the unorganised to the organised sector at a certain rate, the labour force may continue to grow at a faster pace, thereby increasing the pool of surplus labour in this sector. If output does not grow correspondingly, this means that the output per worker is actually falling, which in turn means dwindling incomes for both the self-employed and the casual workers who constitute the bulk of the workforce. So, output in the unorganised sector must increase at least at the same rate as the workforce. Thus, we get our second labour market indicator—output per worker (or average earnings) in the unorganised sector.

Putting these two together (share of the organised workforce and average earnings in the subsistence sector), in his 2006 paper referred to earlier, Ghose points to the key conditions that must be met in order for growth to result in an improvement in employment conditions. First, the output growth in the modern or organised sector must be such that the resulting employment growth exceeds the growth of the labour force. And second, per person output or productivity in the unorganised sector must at least remain constant (if it does not increase). Ghose makes the crucial point that if growth policy remains focused only on the modern sector, it is likely to fail in improving employment conditions. It is essential for a growth strategy to encompass the subsistence sector as well.

Incidentally, this paper is also a great accompaniment to classroom teaching on the Lewis model. Ghose notes that the model has been widely interpreted as saying that growth of the modern sector will be enough to absorb surplus labour and end dualism. But two features of actually existing labour surplus economies make this process complicated. First, the wage rate in the modern sector is generally not decided based on average productivity in the subsistence sector (as Lewis assumed) but rather by institutional mechanisms such as government regulations/laws, norms or conventions and collective bargaining. And second, the subsistence sector is not an undifferentiated mass of petty producers (once again as the original model assumes), but rather itself is dual in nature, with asset-rich and asset-poor producers. This allows the emergence of a market for wage labour within the subsistence sector (for example, the agricultural casual labour market).

Once the traditional or subsistence sector is also thought of in dual terms, the question arises: Which type of workers are moving from the subsistence to the modern sector? Those from resource-poor households or those from resource-rich households? The first scenario corresponds to Lewis's formulation. The second is considered by Ghose and applies more directly to the Indian situation. In this case, the modern sector wages are high enough to attract individuals from resource-rich households and the jobs require a level of education, which can typically be afforded only by these households. This is a non-Lewisian mode of modern sector growth that cannot deliver structural transformation and makes growth exclusive rather than inclusive.

India's Structural Transformation: Lewis versus Kuznets Processes

In his more recent work, Ghose analysed the specificity of India's structural transformation in greater detail (Ghose 2014, 2016, 2020). He was a strong believer in the continued relevance of manufacturing in generating jobs and aiding India's structural transformation and was sceptical of the view that services could perform this role instead. In one of his recent papers (Ghose 2020) looking at the diversity of experiences of industrialisation, he argued that "premature deindustrialisation" is not as pervasive as commonly believed. Readers will recall that this phenomenon refers to late industrialisers de-industrialising at lower peak shares of manufacturing and lower per capita incomes as compared to earlier industrialisers. Ghose concludes that the

> characteristics of manufacturing that made it the growth engine for low-income economies in the past—rapid productivity growth, high income elasticity of demand for products, high tradability of products and ability to employ relatively low-skilled labour moving out of agriculture at a large productivity premium—still remain very much relevant. (p 18)

And further,

> the fact that many low-income economies have experienced non-industrialisation or premature de-industrialisation does not tell us that the time-tested route to development no longer exists. (p 18)

In the Indian context, Ghose was the first to draw attention to the fact that there are two distinct processes at work when an economy is undergoing structural transformation. These are related to each other, but also distinct from one another. The first is the Lewis process, which we have already discussed—this involves the transfer of labour from the subsistence or unorganised sector to the modern or organised sector. However, empirical evidence for structural transformation is usually presented in terms of changing output and employment shares accounted for by agriculture, manufacturing and services. Simon Kuznets was the first to systematically analyse this process of change whereby an economy becomes less agrarian and more industrialised as it grows. Ghose labelled this the Kuznets process.

Insofar as agriculture is the main repository of surplus labour or subsistence work, the two processes are closely related to each other. But Ghose points out that it is quite possible for labour to move out of agriculture without finding a home in modern manufacturing or services. Rather it may get absorbed in other parts of the unorganised sector such as petty services or construction. This is indeed India's case, where gross domestic product growth has been driven by skill-intensive modern services that have failed to create jobs for the workers leaving agriculture. Connecting back to the theme of "exclusive growth," Ghose argues that the employment benefits of services-led growth are far too inadequate to translate growth into development. But notwithstanding his diagnosis of what ailed the Indian economy as well as the awareness of headwinds generated by automation and artificial intelligence, Ghose remained optimistic about India's manufacturing prospects.

Ghose belonged to a generation of Indian economists who combined analytical rigour with a strong sense of Indian reality and intellectual sophistication with kindness and humility, who preferred sober and contemplative engagement to shrill bytes of social media, and constructive engagement over "gotcha whataboutery." One hopes that many more will arrive to carry his legacy forward.

NOTE

1 There is one subtlety here. Technically, income from self-employment is "mixed income" coming from both labour and capital. Thus, it is the labour income part of self-employment income that should equal income from casual wage work. But this point need not detain us.

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