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A Dominant Presence in Indian Labour Economics

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Labour economist Dipak Mazumdar (1932–2018) framed the way in which employment issues in India and developing countries are thought of.

Dipak Mazumdar, doyen of Indian labour economics, passed away in Toronto. Dipak's conceptualising, followed by dogged and detailed empirical investigation, shaped the way we think of employment issues in India and developing countries. He was a prolific author, not least in *Economic & Political Weekly* (EPW). Through his writings, his extensive travel and conference presentations, and his mentorship of young economists—including this author—he influenced a generation of policy and empirically oriented development economists.

Like many distinguished Indian economists, Dipak started at Presidency College. And like many of his generation of Indian economists, he studied at Cambridge. His early career was in British academia, particularly at the London School of Economics. In the 1970s, he began an interaction with the World Bank which culminated in a permanent appointment, and much of his work from the 1970s, 1980s and 1990s was done under the auspices of the World Bank. My own professional association with him dates from this period. He retired from the World Bank to Toronto in 1994, to be with his wife Pauline Mazumdar, who was professor of the History of Medicine at the University of Toronto. But this was retirement in name only. If anything, his research and travel intensified, with the University of Toronto as his academic base. And his engagement with Indian policy debates, and Indian cultural life, remained as active as ever, with an annual decampment from Toronto to Delhi for several months.

It may come as a surprise to those familiar with Dipak's empirical focus that his early work was in the theory of economic development. In 1959, at the age of 27, he published a theory paper in the *Review of Economic Studies*, "The Marginal Productivity Theory of Wages and Disguised Unemployment." Indeed, in the early 1960s he was a member of the editorial board of the journal, along with names such as Ian Little, James Mirrlees, Luigi Pasinetti and Denis Sargan. In 1975, he published "The Theory of Share-cropping with Labour Market Dualism" in *Economica* and in 1976 there came "The Rural–Urban Wage Gap, Migration, and the Shadow Wage" in *Oxford Economic Papers*, all demonstrating his theoretical virtuosity using the mathematical models which dominated the literature of the time.

Theoretical Phase

The paper in *Oxford Economic Papers* represents a fitting bookend to this theoretical phase in Dipak's research. It brings together two strands of the literature of the time—the shadow wage to be used in investment projects, and migration models with an informal sector. A major conclusion of the paper is reflective of the level at which he was operating as a theoretical labour economist:

> The proposition that the shadow wage should equal the market wage when we take into account induced migration (a la Harberger-Stiglitz) does *not* depend on the condition that the equilibrium rate of unemployment in the urban market is stable. It is crucially dependent, on the other hand, on the assumption of a migration function which predicts an exaggerated rate of urban unemployment and hence an exaggerated volume of induced migration. (Stiglitz's multi-period model which gives this result is dealt with in the Appendix)

But by the mid-1970s, Dipak had already moved deep into empirical research, in particular on migration, the functioning of labour markets, and small-scale enterprises. He overviewed segmented labour markets in the *American Economic Review*, 1983. He did the survey paper "Rural–Urban Migration in Developing Countries" in the 1987 *Handbook of Regional Economics*. But, perhaps, the best example of this work from that time is the prominent and influential volume he did with Ian Little and John Page, *Small Manufacturing Enterprises: A Comparative Study of India and Other Economies*, published by Oxford University Press in 1987. Although the case of India dominated the empirical analysis and the policy mindset, the volume did cover the experiences of Colombia, Korea, Malaysia, Philippines and Taiwan as well. The volume itself was the culmination of a decade-long engagement with the dominant issues of the time,
on pre-liberalisation industrial policy, especially in India.

The volume reflects deep knowledge of data sources, and displays state-of-the-art econometrics methods of the time in estimating frontier production functions, and calculating measures of technical efficiency and total factor productivity. Of course, the methods have moved on, and endogeneity and causality concerns dominate the technical literature of today. But 30 years ago, Little–Page–Mazumdar became the reference text on enterprise analysis. As important, it contributed to the policy debates of the time. Characteristically, the volume draws highly specific policy conclusions in the final chapter, including, for example:

> The very small (less than 10 workers) should not be looked to for their efficient employment of factors of production. But at the same time they should not be discriminated against. They are there, and they still provide the bulk of employment in the lower-income developing countries. Many of the industrialization policies of developing countries, which on other grounds should anyway be changed, in fact discriminate against them. Not only are they there, but they are also the source of most medium-size and large private firms. If supply-side intervention in favor of small firms is planned, the objective must be to spot potential winners and speed them on their way. Since it is difficult to spot winners at the starting gate, it follows that such intervention is more likely to be successful at a stage when there is already evidence of some success. (p 313)

These conclusions were to be expected from Little, a leading advocate of liberalising trade and industrial policies at that time. But, Mazumdar had also been highlighting for a while, and continued to highlight in the coming decades, the "missing middle" in Indian enterprises, especially in manufacturing. Here is how his body of work was summarised by the Canadian International Development Research Centre (IDRC), in 2011:

> The middle is missing in India's labour markets and Dipak Mazumdar knows why. In truth, it was never really there, says the University of Toronto professor. Most Indians not working in agriculture rely on the country's large "traditional" or informal sector for their livelihood, notes Mazumdar. Those employed in the country's "modern" economy work in small firms, with fewer than six employees, or in large establishments of 300 or more workers. In between is a yawning divide. "The major reasons for India's 'missing middle' in the modern sector is the lack of development of labour-intensive industries—mid-size firms that make use of less-skilled labour," says Mazumdar. A decade-long economic boom has done little to provide real jobs for unskilled Indians who make up the majority of the workforce … (Conway 2011)

Indeed, the "missing middle" was a constant theme in Dipak's empirical policy work, including in his work with Sandip Sarkar—*Globalization, Labor Markets and Inequality in India*—published in 2008, and then *Manufacturing Enterprise in Asia* published in 2013.

Dipak was deeply engaged in the adjustment debates of the 1980s and 1990s, focusing on labour markets and on small enterprises. He took up the issue in his 1993 article "Labour Markets and Adjustment in Open Asian Economies: The Republic of Korea and Malaysia" in the *World Bank Economic Review*. Characteristically, and with his theorist's eye for the essence of the problem, he boiled the issue down to a key variable:

> For economies heavily dependent on exports, the unit cost of labor in dollars is of central importance as an index of the competitiveness of exports and hence of their ability to mount a sustained recovery after a difficult period. Accordingly, the heart of the analysis is the determination of the unit cost of labor and the factors affecting its change throughout the cycles. Concentration on this critical variable helps to spotlight the crucial differences in the factor markets of the two economies. (p 349)

My own professional engagement with Dipak also came with our mutual interest in labour markets and adjustment. We co-edited, with Susan Horton, the two-volume work on *Labor Markets in an Era of Adjustment* (1994). The first volume, on concepts and issues, had contributions from names like Paul Collier, Sebastian Edwards and Jean-Paul Azam. The second volume had country case studies on 12 countries, with authors, including names like Albert Berry, Rohinton Medhora, Paul Beaudry and Chalongphob Sussangkarn. Dipak himself supplied two of the case studies—on Malaysia and South Korea. I like to think that these 1994 volumes contributed to a more nuanced and empirically based assessment of the role of labour markets in the adjustment process, moving us away from the unproductive debates based on "all regulation bad" versus "any regulation good" positions that dominated at that time. Dipak's innate sense of the need for an empirical basis for policy discourse was essential in framing the discussions of the time and in the following years.

Throughout Dipak's work, there is a deep concern with income distribution, inequality and poverty. As he was quoted by Conway (2011):

> "Growing inequality may sow the seeds of conflict and put the brakes on poverty alleviation," warns Mazumdar. "Furthermore, if firms are not able to respond and provide jobs to India's huge unskilled and semi-skilled labour force, then wage costs in the industries currently driving the country's economic boom will be a brake on further growth in the export and domestic market," he says.

This focus on income distribution is seen in one of his early volumes, *The Urban Labor Market and Income Distribution: A Study of Malaysia*, published by Oxford University Press in 1981. It runs through his missing middle discussions, since he viewed these enterprises as providing the employment which is central to inclusive growth. And it continued right up to 2017, when together with Balwant Singh Mehta and Sandip Sarkar, he published a two-part article on "Inequality in India" in EPW. The article assessed the sharp rises in inequality in India after liberalisation, and attributed them to "the structure of growth in the Indian economy, particularly what happened in the tertiary and manufacturing sectors," and to the role of informality in the labour market.

Dipak's focus on inequality and poverty was an inspiration and a spur to many of us. With his prodding, Richard Sandbrook, Paul Shaffer and I launched a conference in 2016 to better understand the cases where growth does not help the poor (https://www.wider.unu.edu/news/call-papers-immiserizing-growth-conference (https://www.wider.unu.edu/news/call-papers-immiserizing-growth-conference)). Although in declining health, Dipak came to the conference to show his support for the project. The conference volume will be published by Oxford University Press. It will be dedicated to Dipak.

He was a dominant presence in Indian labour economics for more than half a century, from his publication in 1959 on the shadow wage in the theory journal *Review of Economic Studies*, to his publication in 2017 on Indian inequality in this policy journal, EPW. In this brief overview, I have barely scratched the surface of his extensive writings. He was a stalwart of the Indian Society of Labour Economics and the Institute for Human Development, and an intellectual and financial supporter of institutions and individuals in India and throughout the world.

But above all, Dipak was a kind, cultured and vibrant human being. His love of poetry was unsurpassed, and his friends will recall evenings when he read Charles Baudelaire, T S Eliot and Rabindranath Tagore with equal verve. Indeed, he translated Baudelaire into Bengali, and held us spellbound as he read Les Fleurs du Mal in soaring cadences. We will miss him.

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