

# Labour Market Situation in India: An Analysis

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**Abstract—** The present study analyses the labour market situation in India over the last five decades. Given the growth profile, which has been quite robust in recent years, one pertinent question is whether India has experienced pro-poor growth. The paper examines a wide range of indicators, including worker population ratio, sectoral shifts in the value added composition and occupational structure, growth in value added and employment, employment status in terms of self-employment, regular wage employment and casual employment, unemployment rates, formal-informal division of employment, employment elasticity and labour productivity, and finally, the poverty.. The paper also examines the trends in work participation rates for women and men in rural and urban areas and employment scenario between the rise in economic growth and the trends in poverty lines that take place in course of time.

**Index Terms—** Labour Market, Labour Situations, Inclusive growth..

## I. INTRODUCTION

India's rapid economic growth has reduced extreme poverty among Indians. Between 1983 and 2012, average real wages grew more than 3% annually. However, for the almost 460 million working-age Indians — who are poised to become the world's largest labour force by 2030 — huge employment deficits still remain. Most of their jobs are casual with low productivity. Almost 60% of Indian workers are still considered poor, despite having a job. And while in some advanced sectors of the economy, skilled workers have joined the ranks of a booming middle-class and opportunities for regular formal employment are increasing, the benefits of these gains are enjoyed by only a minority of Indians, and reveal a widening inequality and the fragility of India's social protection. The India Labour and Employment 2014 Report takes stock of India's labour markets, examining the progress reforms have brought about as well as the deep challenges ahead. Its central message: India needs a responsive, fair, and comprehensive labour and employment policy for sustainable and inclusive development.

India's economic growth over the last five decades has been quite robust - expanding at more than 5 per cent per annum. In recent years, the growth rate has reached 7-8 per cent. Employment, on the other hand, has not grown so fast. The employment growth rate decelerated from 2.04 per cent per annum between 1983 and 1993-94 to 0.98 per cent per annum between 1993-94 and 1999-2000. Employment in the organized manufacturing sector grew at 1.20 per cent and 0.53 per cent per annum over the 1980s and 1990s, respectively. The decline in organized sector employment is partly due to the downsizing of the public sector.

Unorganized sector employment growth also witnessed a deceleration from 2.19 per cent per annum during the 1980s to around 1 per cent in the 1990s. In this backdrop of 'jobless growth' in the Indian economy in the last few years, creating an environment of 'pro-poor' growth (The concept of pro-poor growth envisages acceleration in economic growth with concomitant growth in employment opportunities for the poor. This can be achieved when productivity growth, employment growth, and rise in real wages take place simultaneously at a rapid pace.) becomes an even greater challenge. In recent years (between 1999- 2000, 2004-05 and 2014-2015), employment growth rate has picked up. The 61st round of the National Sample Survey Organization (NSSO) shows that employment growth rose considerably (to nearly 3 per cent per annum) in the period from 1999-2000 to 2004-05, though the extent of decline in poverty has been much slower after 1993, compared with what was experienced from 1983 to 1993-94. This indicates that in recent years, economic growth and employment generation have both been more beneficial to those located in the upper income strata of society than the poor. In other words, in the present situation of economic growth, employment is being generated more for the educated labour force than for the poor with lower levels of human capital. All this is likely to have resulted in increasing inequality.

## II. INDIAN LABOUR MARKET AND EMPLOYMENT CONDITIONS

India has witnessed an impressive GDP growth rate of over 6 per cent since the 1980s. Growth has been particularly rapid since the post reform period of the 1990s. This high growth has contributed to a sustained increase in per capita income and a decline in absolute poverty, as well as modest improvement in standards of living. It has also brought important changes in employment conditions in the country. The structure of the labour market, patterns of employment growth and labour-market institutions play an important role in shaping development patterns and outcomes. These provide analyses of the changes in the labour market and employment since the inception of economic reform. It explores the dynamics of these changes, by looking at labour-market institutions, different types of employment, and labour market policies. It also outlines the emerging agenda for policies and action that emerge from such analyses

1) Today, India is counted among the most important emerging economies of the world but employment conditions in the country still remain poor. 2) Overall, labour-force to population ratio (in the age group 15 years and above) at 56 per cent is low in India compared to nearly 64 per cent for the rest of the world. The low participation in India is largely because the female labour force participation rate (LFPR) is dismally low at 31 per cent, which is amongst the lowest in the world and the second lowest in South Asia after Pakistan 3) Even today the large proportion of workers engaged in

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agriculture (about 49 per cent) contribute a mere 14 per cent to the GDP. In contrast, the service sector which contributes 58 per cent of the GDP barely generates 27 per cent of the employment, and the share of manufacturing in both employment (13 per cent) and GDP (16 per cent) is much lower than in East Asian and South-East Asian countries. This unbalanced pattern of growth is at variance with not just the experience of the fast growing economies of East and South East Asia but also the economic historical experience of the present day developed countries of the West. **4)** An overwhelmingly large percentage of workers (about 92 per cent) are engaged in informal employment and a large majority of them have low earnings with limited or no social protection. This is true for a substantial proportion of workers in the organized sector as well. Over half the workers are self-employed, largely with a poor asset-base, and around 30 per cent are casual labourers seeking employment on a daily basis. About 18 per cent of those employed are regular workers, and amongst them less than 8 per cent have regular, full-time employment with social protection. **5)** Levels of education and professional and vocational skills are extremely low. Less than 30 per cent of the workforce has completed secondary education or higher, and less than one-tenth have had vocational training, either formal or informal. Although these figures, based on National sample Survey Organisation (NSSO) surveys, do not capture many types of skills that are informally acquired, it still suggests that skill-acquisition is generally very low. **6)** Since good quality 'formal' employment is rare, access to it is extremely unequal. Disadvantaged social groups such as Scheduled Castes (SCs), Scheduled Tribes (STs), and large sections of the Other Backward Classes (OBCs) are mostly concentrated in low-productivity sectors such as agriculture and construction and in low paying jobs as casual labourers and Muslims are concentrated in petty so-called low productive self-employment. On the other hand, upper caste Hindus and 'others' (comprising minorities such as Jains, Sikhs and Christians), have a disproportionate share of good jobs and higher educational attainments. There is an overlap between poverty and poor quality of employment as well. **7)** There is considerable regional differentiation in access to good quality employment. A preliminary Employment Situation Index (ESI) prepared for this Report shows that generally workers in the southern and western states of India have much better access to good quality employment than do workers in states in the central and eastern regions. Himachal Pradesh ranks number one, in particular because of a good performance with respect to women's employment, while Bihar ranks last. **8)** There is considerable segmentation in the labour market in terms of forms of employment, sector, location, region, gender, caste, religion, tribe, etc. In spite of increased mobility over the years, acute dualism and sometimes fragmentation persists in the labour market. There is a great deal of movement between places of residence and work, and rural-to-rural and rural-to-urban migration is substantial, especially in terms of circular and temporary migration. **9)** Women in general are disadvantaged in the labour market. In addition to their low share in overall employment, greater proportions of them are engaged in low-productivity, low-income, insecure jobs in farms, and in the unorganized and informal sectors as compared to men. **10)** As is typical for a poor and developing economy, most workers in India

cannot afford to be unemployed, hence the level of open unemployment is quite low at 2.7 per cent. Even the more comprehensive current daily status (CDS) measure of unemployment reaches only 5.6 per cent. In reality, the problem is not primarily one of unemployment but lack of productive employment. **11)** A commodity market refers to a physical place where buyers and sellers of a particular commodity gather for engaging in transactions while a labour market is viewed as a process by which supplies of a particular type of labour and demands for that type of labour are balanced, is an abstraction. **12)** Unlike a commodity market, the relationship between a seller and a buyer in a labour market is not temporary and as such personal factors, which can be ignored in a commodity market, become important in a labour market. **13)** And unlike a commodity market, in a labour market there is a lack of perfect mobility which gives rise to a diversity of wage rates for the same type of work and we do not find a normal wage rate to which the market rate naturally tends. In other words, labour market is essentially an imperfect market. **14)** Wage fixing is an essential characteristic of the labour market, where (in the absence of unions) the buyer of labour normally sets the price but in the commodity market, it is normally the seller who sets the price. **15)** In labour market the price that is set tends to be fixed for some length of time. Employers do not want wage rates to fluctuate with every change in demand and supply conditions. **16)** The labour market is far more complex than the commodity market. It makes little difference whether a potato is sold in Calcutta or in Bombay to the seller. But this is not true of a human being. Whatever is the occupation or monetary reward of a person, each individual feels that he is entitled to a decent treatment and that the dignity of his person must be respected. **17)** The essential characteristic of the labour market of an expanding economy is that the vast majority of individuals are employees while relatively small minorities function either as employing persons or as employed managers of employing units. As the vast majorities are labours, they are interested in short-run wage-levels, working hours and working conditions. As a result of industrialisation the average employing unit has become larger in size, its bargaining power has expanded while at the same time, the bargaining power of the individual worker has shrunk and become almost meaningless for all practical purposes. Therefore, the individual worker loses control over the determination of factors quite basic to him, such as wages, his working hours etc. Thus, industrialisation is producing divergent trends in the bargaining power of buyers and sellers within the labour markets. Lastly, another development within the labour markets, in part attributable to industrialisation, has been what Prof. Kerr has termed as 'Balkanisation' (i.e., degree of isolation) of the markets. It refers to the development of institutional rules within the labour markets. Institutional rules such as the membership and seniority rules of labour unions etc., tend to have certain indeterminate effects upon labour markets, such as the slowing down of labour mobility and the strengthening of the barriers between the non-competing groups in the labour markets. The overall effect of 'balkanisation' is to contribute to the growing imperfections of competition within labour markets. It should be noted that the labour market seems to perform more adequately during periods of full employment than during periods of depression. This is so because in

periods of full employment more jobs are open than it is during the periods of widespread unemployment. This provides an explanation for the narrowing of wage differentials during periods of full employment. Recent empirical studies undertaken in the USA indicate that in the absence of collective bargaining, employers will continue indefinitely to pay diverse rates for the same grade of labour in the same locality under strictly comparable conditions. Thus, the labour market is not characterised by a norm of perfect competition. There is no wage which will regularise the market. The labour market is characterised by instability and lack of fluidity and diversity of rates for similar jobs. A rise in the price of labour offered by a particular employer does not cause employees of other firms receiving fewer wages to leave their jobs and go to high wage employer. As such a labour market may be viewed as definite geographic area. But it is not easy to define the boundaries of labour markets. Highly trained professionals like engineers and doctors are likely to find suitable employment in many different localities. Such workers are likely to move to another job which pays better. Workers without specialised skill clerks, unskilled workers, etc. find it difficult to get employment in various areas. The boundaries of their labour markets are likely to be restricted to home area. Age is also an important factor in the mobility of labour. In general, young workers tend to be more mobile than their older counterparts in the labour force.

### III. LABOUR MARKET STRUCTURE IN INDIA

**Table 1**, outlines the structure of Indian Labour Market, measured by usual principal status based on unit level records of National sample Survey 66th Round (2011). First for all the age groups, population is composed of labour force (37per cent) and not in labour force (63per cent). In the whole population, 36.5per cent are engaged in employment, while 1 per cent is unemployed. Quite important, 27 per cent of population is pursuing education that forms largest component of not in labour force. WPR, LFPR and rate of

unemployment are 36.5 per cent, 37.4 per cent and 2.5 per cent, respectively. Just 6 per cent of population falls within the category of in regular salary/wage employment while 18 per cent and 13 per cent are in the self employment and casual labour category respectively. For the age group 15 years and above, WPR, LFR and rate of unemployment are 52.3 per cent, 53.6 and 2.4 per cent, respectively.

Over 94 percent of India's working population is part of the unorganised sector. In local terms, organised sector or formal sector in India refers to licensed organisations, that is, those who are registered and pay sales tax, income tax, etc. These include the publicly traded companies, incorporated or formally registered entities, corporations, factories, shopping malls, hotels, and large businesses. Unorganised sector, also known as informal sector or own account enterprises, refers to all unlicensed, self-employed or unregistered economic activity such as owner manned general stores, handicrafts and handloom workers, rural traders, farmers, etc.

**Table 1**  
**Structure of Indian Labour Market for all ages (Male + Female; Rural + Urban) 2009-2010**

	Usual Principal Activity Status	For all Ages	For 15 and above
1.1	Worked in HH enterprise self-employed own account worker	11.6	16.8
1.2	Employer	0.4	.6
1.3	Worked as helper in house hold enterprise	5.9	8.3
<b>1.1+1.2+1.3 =1</b>	<b>Self Employed</b>	<b>17.9</b>	<b>25.7</b>
<b>2</b>	<b>Worked as regular salaried wage employee</b>	<b>6.1</b>	<b>8.7</b>
3.1	Worked as casual wage labour in public works	0.3	.4
3.2	Casual wage labour in other types of work	12.2	17.5
<b>3.1+3.2=3</b>	<b>Casual Labour</b>	<b>12.5</b>	<b>17.9</b>
<b>1+2+3=4</b>	<b>Employment</b>	<b>36.5</b>	<b>52.3</b>
<b>5</b>	<b>Unemployed</b>	<b>0.9</b>	<b>1.3</b>
<b>4 + 5 =6</b>	<b>Labour force</b>	<b>37.4</b>	<b>53.6</b>
7.1	Attended educational institution	27.0	11.0
7.2	Attended domestic duties only	13.2	18.7
7.3	Attended domestic duties and was also engaged in free collection of goods for household use	7.5	10.6
7.4	Aentiers, pensioners remittance recipients	1.3	1.9
7.5	Not able to work due to disability	1.2	1.6
7.6	Others	12.4	2.7
<b>7.1+7.2+7.3+7.4+7.5+7.6=7</b>	<b>Not in Labour force</b>	<b>62.6</b>	<b>46.5</b>
<b>6+7=8</b>	<b>(Population according to Census 2011 =1210193422)</b>	<b>100.0</b>	<b>100.0</b>
	<b>Work Participation Rate [(Employment/Population)*100]</b>	<b>36.5</b>	<b>52.3</b>
	<b>Labour Force Participation Rate [(Labour Force/Population)*100]</b>	<b>37.4</b>	<b>53.6</b>
	<b>Rate of Unemployment [(Unemployed/Labour Force)]</b>	<b>2.5</b>	<b>2.4</b>

**Source: Computed from National Sample Survey (NSS) 66<sup>th</sup> Round unit level records-2011**

India's Ministry of Labour, in its 2008 report, classified the unorganised labour in India into four groups. This classification categorized India's unorganised labour force by occupation, nature of employment, especially distressed categories and service categories. The unorganised occupational groups include small and marginal farmers, landless agricultural labourers, share croppers, fishermen, those engaged in animal husbandry, beedi rolling, labeling and packing, building and construction workers, leather workers, weavers, artisans, salt workers, workers in brick kilns and stone quarries, workers in saw mills, and workers in oil mills. A separate category based on nature of employment includes attached agricultural labourers, bonded labourers, migrant workers, contract and casual labourers. Another separate category dedicated to distressed unorganised sector includes toddy tappers, scavengers, carriers of head loads, drivers of animal driven vehicles, loaders and unloaders. The last unorganised labour category includes service workers such as midwives, domestic workers, barbers, vegetable and fruit vendors, newspaper vendors, pavement vendors, hand cart operators, and the unorganised retail.

The unorganised sector has low productivity and offers lower wages. Even though it accounted for over 94 percent of

workers, India's unorganised sector created just 57 percent of India's national domestic product in 2006, or about 9 fold less per worker than the organised sector. According to Bhalla, the productivity gap sharply worsens when rural unorganised sector is compared to urban unorganised sector, with gross value added productivity gap spiking an additional 2 to 4 fold depending on occupation. Some of lowest income jobs are in the rural unorganised sectors. Poverty rates are reported to be significantly higher in families where all working age members have only worked the unorganised sector throughout their lives.

Agriculture, dairy, horticulture and related occupations alone employ 52 percent of labour in India.

About 30 million workers are migrant workers, most in agriculture, and local stable employment is unavailable for them.

India's National Sample Survey Office in its 67th report found that unorganised manufacturing, unorganised trading/retail and unorganised services employed about 10 percent each of all workers nationwide, as of 2010. It also reported that India had about 58 million unincorporated non-Agriculture enterprises in 2010.

In the organised private sector with more than 10 employees per company, the biggest employers in 2008 were



manufacturing at 5 million; social services at 2.2 million, which includes private schools and hospitals; finance at 1.1 million which includes bank, insurance and real estate; and agriculture at 1 million. India had more central and state government employees in 2008, than employees in all private sector companies combined. If state-owned companies and municipal government employees were included, India had a 1.8:1 ratio between public sector employees and private sector employees. In terms of gender equality in employment, male to female ratio was 5:1 in government and government owned enterprises; private sector fared better at 3:1 ratio. Combined, counting only companies with more than 10 employees per company, the organised public and private sector employed 5.5 million women and 22 million men.

Given its natural rate of population growth and aging characteristics, India is adding about 13 million new workers every year to its labour pool. India's economy has been adding about 8 million new jobs every year predominantly in low paying, unorganised sector. The remaining 5 million youth joining the ranks of poorly paid partial employment, casual labour pool for temporary infrastructure and real estate construction jobs, or in many cases, being unemployed.

**Active Labour Market Policy, a Brief Review:** As should be evident from the aforesaid discussion, even though there are several programmes in the domain of active labour market policy, it is obvious that there is a need to strengthen the existing policies in several respects. Some of the more obvious suggestions for improving the policies could include the following. The resource gaps both on financial and human front must be bridged at the earliest and the administrative bottlenecks as highlighted by several studies should be addressed. For instance in the case of employment generation policies (e.g. NREGP), problems identified by the CAG and other evaluation studies need to be addressed urgently. Employment guarantee programmes like NREGP should go beyond providing just manual wage employment. A suitable mechanism could be evolved to also include semi-skilled jobs (like that of Anganwadi workers) to provide necessary non-technical manpower support for other government poverty alleviation programmes. The productivity norms for minimum wages need to be rethought. All wage employment programmes should be brought under a single umbrella programme by extending employment guarantee even to the urban areas. For this purpose, the wage employment components of SJSRY and NREGP may be clubbed together into a National Employment Guarantee Programme as promised in the National Common Minimum Programme of the current government at the Centre. Proper social mobilization is the key to address the problems of irregularities and leakages in the system. Towards this objective, community participation in monitoring and implementation should be strengthened. Better synergy of all training programmes, whether formal or informal, in the education system in the country is of critical significance. Universalisation of education at least upto secondary level is extremely important to strengthen human capital formation/upgradation component of ALMPs. There is a pressing need to refurbish the training and skill upgradation infrastructure for existing and potential workforce. Employment services should be revitalized and there is clear need for better coordination between these and other components of ALMPs such as direct employment

programmes, training and educational programmes. In spite of substantial experience of almost four decades now, one of the major lessons which policy makers are yet to learn adequately is that the 'scheme mode', 'piece-meal' approaches, 'special schemes' etc., have to be given up and what is required is a much more comprehensive and integrated development policy towards productive employment generation. In fact, the growth in the number of schemes related to different dimensions of ALMPs, both by the centre and the states appear to be almost mindboggling and dramatic. However, in terms of financial provisioning for the ALMPs, the overall story in recent years is that of a regression. Arguably, the major problems in formulating many of these policies lie in three different dimensions. Firstly, most of the labour related programmes in India are not targeted towards addressing unemployment or the wellbeing of labour in a comprehensive and sustainable sense but electoral concerns. Secondly, there is a clear lack of coherence and convergence in the activities of different institutions like formulating agencies and implementing agencies within central and the state governments. Thirdly, the emergence of neo-liberal ethos and the associated developments, in particular the retreat of the state for the sake of 'fiscal prudence' have severely dented the prospects of deepening the provisioning for basic services which have, in turn, made many of our well meaning policies relatively ineffective. As discussed repeatedly in this paper, deep-rooted unemployment and chronic poverty are major and persistent problems in India. To address these concerns, from the late 1970s onwards, a whole range of employment generation and poverty alleviation programmes have been initiated from time to time. The decade of 80s was arguably the high point of public policy in this respect. Since the early 1990s, there have been significant regressions and expenditure cuts by the government in several areas. The last two and half decades have witnessed remarkable progress in the overall growth of the economy. However, such a growth has not percolated down to create employment and effective demand through providing more income to the masses. As mentioned by many, such a growth of the Indian economy has been a 'jobless growth', the benefits of which are largely appropriated by the surplus earners as the share of surplus in the output has been increasing. Economic understanding suggests that in a 'demand constrained' economic system, a rising share of profit (or surplus) should eventually give rise to a stagnationist tendency and not a sustained increase in the growth rate. However, Patnaik(2007) argues, India's recent economic experience, rising share of profits has not created any 'realisation problem' as growth has been accompanied by an even greater consumption by the surplus earners themselves and also through greater investment stimulated by such increased consumption of new forms of goods and services available in metro cities and urban areas. Such spending by the profit earners and the high income groups on the new form of goods and services have prevented the stagnationist tendency in the economy<sup>64</sup>, although, the economic situation of the majority of the population, particularly in rural areas, has not experienced any appreciable improvement. In other words, the overwhelming mass of workers have remained largely excluded from current growth process, and have even been impacted adversely in several respects as discussed in the first couple of section in this paper. This only underscores the need to strengthen

ALMP interventions. Not only in India, throughout the world the basic context of the labour market has undergone dramatic changes, particularly in the recent years. To illustrate the nature of emerging challenges, let us take the example of the growing importance of information and communication technology as an integral part of the production process. It is well documented that increased importance of ICT has led to the growth in demand for highly skilled labourers like computer experts, doctors, engineers etc., on the one hand as well as the manual service providers like barbers, drivers, porters, housekeepers etc.; on the other, the demand for the middle level white collar workers such as accountants, typists etc is almost on the verge of collapse. This has led to new and complex differentiations in the economy's labour market. For instance, there is a polarization between skilled and unskilled workers and at the same time there is a polarization between skilled workers with potential for employment and skilled workers in decaying trades<sup>65</sup>. The change in the global occupational structure as well as the cross border integration of job markets, especially in the service sector based on IT, has further led to a polarization of skilled workers in India into skilled high wage workers getting wages above the national rates and very low wage workers in even skilled jobs. For example, a graduate with a good command over English may end up doing a high paid call centre job in a metro city or the job of a Para teacher in a remote village with remuneration even below the wages of a manual worker. The labour market in the present context is therefore critically linked to the system of education and training being imparted in the economy. It suggests that even for manual unskilled jobs there is a clear role of education given the changing nature of the market that demands the worker to be well equipped with information about job availability and other related issues. It is obvious that the policy thinking on ALMPs should show adequate awareness of the changing ground realities of the world of work. Clearly, in spite of having a number of programmes and schemes available as active labour market interventions, the outcomes have been far from satisfactory. It is beyond any doubt that for successful implementation of ALMPs, substantial amount of resources must be mobilized. But in the recent years, there has been a steady decline in the fund flow into the interventions under ALMPs. Frequent announcement of new schemes only with the populist concerns, un-sustainability of the programme due to a lack of long term vision and increased burden on the state governments are some of the major bottlenecks towards a successful implementation of the ALMPs. A systemic integration of different components of ALMPs into a broader development strategy is urgently required and a lot more coherence between different levels and agencies of governance (e.g., centre, state and the local governments), and between different ministries both at the level of conceptualization as well as implementation. Also,

the need for appropriate and effective institutions has been an ongoing challenge for the policy makers and the democratic processes, and one hopes that policy makers do not shy away from confronting these challenges head on.

### **Trends in Formal- Informal Employment**

Formal-Informal employment is spread across two sectors viz; organised (formal) and unorganised (informal). The National Commission for Enterprises in the Unorganised Sector (NCEUS) has defined the informal/ unorganised sector as all unincorporated private enterprises owned by individuals or households engaged in the sale and production of goods and services operated on a proprietary or partnership basis and with less than ten workers. Informal workers being spread both in the organised and unorganised sector, the NCEUS also gave a definition of informal workers as, "Informal workers consist of those working in the informal sector or households, excluding regular workers with social security benefits provided by the employers and the workers in the formal sector without any employment and social security benefits provided by the employers". The present article uses the NCEUS definition to identify the spread of formal / informal employment across organised-unorganised sectors.

**Table-1 Formal-Informal Employment across Organised and Unorganised Sectors** (In millions)

<b>2004-2005</b>			
	Organised	Unorganised	Total
Formal	32.06 (52)	1.35 (0.3)	33.41 (7.3)
Informal	29.54 (48)	396.66 (99.7)	426.20 (92.7)
<b>Total</b>	<b>61.61 (13)</b>	<b>398.01 (87)</b>	<b>459.61 (100)</b>
<b>2011-2012</b>			
	Organised	Unorganised	Total
Formal	37.18 (45.4)	1.39 (0.4)	38.56 (8.1)
Informal	44.74 (54.6)	390.92 (99.6)	435.66 (91.9)
<b>Total</b>	<b>81.92 (17.3)</b>	<b>392.31 (82.7)</b>	<b>474.23 (100)</b>

*Source: Computed using unit level data of NSSO various rounds*

*Note: Population projected for year 2004-05 and 2011-12 using decadal population growth rate between Census 2001 and 2011.*

*Figures in brackets indicate per cent share*

2011-12, while informally employed increased from 426.20 million to 435.66 million during this period.

The composition of employment in the organised and unorganised sector was in the proportion 13:87 in 2004-05 and 17:83 in 2011-12 (Table-1) indicating an increase in organised sector employment from 13 per cent in 2004-05 to 17 per cent in 2011-12. But this increase in organised sector employment was informal in nature (48 per cent in 2004-05 increased to 55 per cent in 2011-12) while the share of organised formal employment decreased (52 per cent in 2004-05 decreased to 45 per cent in 2011-12). But in the unorganised sector the share of formal employment marginally increased from 0.3 to 0.4 per cent and that of informal employment declined marginally from 99.7 to 99.6 per cent. On the whole the number of formally employed increased from 33.41 million in 2004-05 to 38.56 million in

**Sectoral Distribution of Employment** In agriculture sector which is the main contributor of employment, nearly 97 per cent of the employment is informal in nature (Table-2). But the share of agriculture in total employment has decreased from 58.50 per cent in 2004-05 to 48.90 per cent in 2011-12 which is indicative of the structural transformation of the sector. In manufacturing sector the increase in share of employment was accounted for by the organised sector which showed an increase in both formal and informal employment. In non-manufacturing which comprises of the construction sector there was an increase in employment across both the organised and unorganised sector as well as in the formal and informal sector, though the share of informal employment was higher. The same trend was observed in the services sector also.

Table – 2 Sectoral Distribution of formal and informal Employment in India

2004-2005	Organised Sector		Unorganised Sector		Total
	Formal	Informal	Formal	Informal	
Agriculture	0.76	0.99	0.00	56.75	58.50
Manufacturing	1.21	2.10	0.10	8.33	11.73
Non Manufacturing	0.53	1.45	0.00	4.42	6.41
Services	4.48	1.89	0.19	16.80	23.36
<b>Total</b>	<b>6.98</b>	<b>6.43</b>	<b>0.29</b>	<b>86.30</b>	<b>100.00</b>
2011-2012	Organised Sector		Unorganised Sector		Total
	Formal	Informal	Formal	Informal	
Agriculture	0.06	0.16	0.00	48.69	48.90
Manufacturing	1.48	2.79	0.06	8.28	12.60
Non Manufacturing	0.69	3.77	0.07	7.18	11.65
Services	5.62	2.72	0.22	18.29	26.84
<b>Total</b>	<b>7.84</b>	<b>9.43</b>	<b>0.29</b>	<b>82.43</b>	<b>100.00</b>

(In percent share)

Source : calculated using unit level data of NSSO various rounds

### CONCLUSION

To sum up a holistic approach is needed to address the issue of informalisation, which to a larger part is due to the socio-economic fabric of the society comprising of a large number of poorly educated labour force, traditional occupations, poor financial inclusion, combined with lack of motivation or inspirational skills. The way forward should be:

- Creating an ambience that would encourage even micro and small enterprises to register and realize that this cost of formalization is coming with benefits of access to finance, better infrastructure, market information, government incentives, a platform for formal association, providing them legal framework, efforts to overcome uncertainty in financial returns and safety nets for them as well as their workers. This to a large extent will help to overcome challenges to informalisation not only in unorganised sector but also arrest growth of informal employment in organised enterprises.
- This in turn will inculcate a tradition of regulatory compliance in terms of taxes and labour laws. This will not only help to increase the tax base but also help government finance minimum social security cover for workers in those enterprises that still prefer to stay outside the ambit of becoming organised and providing formal employment.
- Lastly, the trend of informalisation would see a reversal with an improvement in skill levels of the workforce that match the requirements of the job market and at the same time improve the bargaining power of the workforce to settle for decent wages, social security and job security.

It is to the credit of Prime Minister Narendra Modi that he continues to use his political capital to push for labour market reforms. It is not going to be an easy task. His recent speech to the trade unions should also be read as an implicit admission that India cannot have a more flexible labour market unless the trade unions are taken into confidence. The changes made to Indian labour laws by the Modi government are still only

akin to chipping away at the edges. Some of the decision-making has been pushed to the states since a wider national consensus seems elusive, as is the case with the land acquisition law as well.

The policy challenge that emerges from this paradox is clear. The government has to create conditions that encourage large enterprises to take on more workers while making it easier for informal enterprises to grow in scale. It is no secret that India does a terrible job on both fronts: industrial employment growth in the corporate sector has been sluggish while informal enterprises are smothered by a corrupt system. The result is one of the biggest failures of Indian public policy since the advent of economic reforms: the inability to create jobs that would allow workers to exit the overcrowded farms. The traditional Indian policy framework tried to grapple with the problem in an interesting way. The early plans focused on the production of capital goods while it was hoped that village industries would absorb excess labour. Then reservations for small enterprises were introduced to generate employment. Neither strategy worked—but there has been no coherent strategy as a replacement either.

The core economic issues are varied: the capital intensity of Indian industry, the employment elasticity of economic growth, the exchange rate strategy, the level of skills on offer in the labour market, the ease of doing business, the structural impediments faced by informal enterprises and much more. Indian industry seems to believe that all that matters is waving a magic wand called labour market reforms. The problem is far more complicated. These debates need to be framed against two big issues. One is a challenge. The other is an opportunity. The challenge is highlighted in the new round of rural distress. It shows once again that the only viable way to break the cycle of distress is through labour-intensive industrialization, as was done in so many other Asian countries, including China.

The opportunity is that China has begun to make the transition up the value chain by exiting the low-value manufacturing it dominated for nearly two decades. Chinese wages are rising, the exchange rate could strengthen and the



government wants to shift the economic model towards a greater dependence on domestic consumer demand. These transitions create a unique opportunity for India, which has till now missed the global manufacturing bus because of its own policy mistakes. Making the Indian labour market less rigid is thus not just about the freedom of big business houses to fire people at will. Nor should it be restricted to such an outcome. The real reason to push ahead with labour market reforms is that these reforms should interact with changes in other areas of industrial regulation so that factory employment begins to rise in tandem with output.

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