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Informal Employment Trends in the Indian Economy: Persistent informality, but growing positive development

Santosh Mehrotra

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Contents

Page

Introduction 1

1. Explaining the rise and persistence of informality in India's workforce........ 3

2. Positive developments in the character of employment – despite persistent informality........ 7

    2.1 Transformation in structure of employment picked up pace, then stalls........ 8

    2.2 Wage increases have raised incomes 10

    2.3 Poverty declined in absolute terms – a new stage in India's development? 11

    2.4 The quality of employment: a fall in the self-employed and casual wage work, and rising regular wage work 12

    2.5 Formal and informal employment........ 16

3. Concluding remarks 19

Bibliography........ 21

Tables and Figure

Table 1: Sectoral Employment Trends in India, 2005-2018 7

Figure 1: Trends of Nominal and Real wage rates (at 2001-02 prices) in Rural and Urban India, 1994-2012 10

Table 2: Types of employment generated across the sectors in India, 2005-2018........ 13

Table 3: Types of Non-farm employment (Organized-Unorganized & Forma-Informal) in India, 2005-2018 15

Introduction

Inclusive growth of India will not be achieved unless the share of informal employment in total employment does not fall. However, with over 90 per cent of the entire workface being informal (defined as those without any social insurance), and 85 per cent of the non-agricultural workforce being informal, India is an outlier among low-middle income countries in this regard. Although India is one of the fastest growing large economy in the world, the informality incidence has remained stuck at this level for decades. The stickiness of this statistic remains a serious area of concern, given that the numbers joining the labour force will only go on increasing over the next decade until 2030 (from whence the growth in the labour force will decelerate). India has experienced a demographic dividend since the early 1980s, which will end by 2040. Clearly a policy imperative is that not only must the non-agricultural jobs grow at a rate at least commensurate with the growth in the labour force, but the quality of jobs will also have to improve.

This paper argues that despite the fact that informality in work has barely declined in the last two decades since India's GDP growth rate increased sharply, other favourable labour market developments have been afoot that bode well. Since 2004-05 the structural shifts in employment, significant increase in rural wages, increase in per capita consumption expenditure and therefore a sharp decline in absolute numbers of the poor as demonstrated by the National Sample Surveys of 2009-10 and 2011-12 have initiated an underlying process that has promoted inclusive growth. Post 2004-05, when a revised national (Tendulkar) poverty line raised the absolute and relative poverty estimates, the absolute number of poor fell from 407 million in 2004-05 to 356 million in 2009-10[1] and further to 269 million in 2011-12 (a total fall of 138 million).[2] What is of concern is that there is a diverging trend between the structure of output and the structure of employment in the last decade, with non-agri employment growth slowing down post-2012, even though GDP growth remained high (though slowing since 2018)

This paper is organized as follows. Section 1 explains the very high share of informal workers in India's workforce. Section 2 attempts to explain the employment trends in the labour market: men or women; the self-employed, casual or regular workers; the organized or the unorganized segment workers, especially in the non-agricultural sectors. But more importantly, it notes that a number of positive developments have occurred in India's labour market, which have tended to mitigate the widespread and chronic effects of informality. Section 3 concludes.

[1] The fall between 2004-5 and 2009-10 seems misleadingly low because 2009-10 was a drought year, and hence, despite rapid agricultural and overall GDP growth, incomes/consumption expenditure could not have increased much. Meanwhile, by 2011-12 agricultural and GDP growth had bounced back up.

[2] The incidence of poverty in this period declined from 37.2 percent in 2004-05 to 21.9 percent in 2011-12.

1. Explaining the rise and persistence of informality in India's workforce

Historically, there were many reasons for the growth and persistence of informality in India's labour force, which were the result of factors affecting both the demand and the supply of labour.

Demand for labour as a factor explaining the rise of informality

Three kinds of reasons stand out which impacted the demand for labour in India . The first was the pattern of India's growth, which was the outcome of the growth strategy. In the Second Five Year Plan (1955-6 to 1959-60) the government of India and its Planning Commission decided to adopt a import-substituting industrialization (ISI) strategy, with a focus on heavy-industry first. While ISI was a standard response across early development strategies throughout the global South, it was the capital-goods bias of the ISI that stood out in the case of countries such as the Soviet Union, China and India. In other words, limited domestic savings available in a country at a low-level of development were to be utilized only for investing in heavy industry in the public sector. In other words, it was a state-led capitalism, substituting for the absence of large corporates, who in any case could not be expected to invest in long gestation projects. This could not be, by definition, a strategy for rapid absorption of surplus labour in agriculture. The result was as surplus workers migrated away from agriculture in search of non-agricultural work, they were inevitably absorbed in traditional services in both rural and urban areas. If not, they were absorbed in unorganized manufacturing in micro-enterprises employing less than 10 workers, where no social insurance was available.

"If emphasis on heavy industries, developing a public sector with the capability to guide the process of development, and self-reliance were the three principal objectives/characteristics of the Indian strategy of industrialization, there were a number of other objectives which were also pursued within the framework of planning and policy. These included the objectives such as the development of the small-scale sector, checking the concentration of economic power, and regional dispersal of industry" (p. 261, Ahluwalia, 1997).

A second factor that impacted the demand for labour, also related to the policy-induced pattern of growth, was that the Industrial Policy resolutions of the government of India began a process of reservation of manufacture of consumer products of a non-durable nature for the small scale sector. It began with a few products, but the number of products reserved exclusively for production in the small-scale sector kept growing until in 1990 the number had reached 836 products, the production of which was subsidised. Medium-sized firms or large corporates were disallowed from entering this sector. This resulted in perverse incentives to remain small, with inevitable loss in terms of economies of scale. Another perverse incentive was that large corporates could give birth to small enterprises, to take advantage of the protection the small-scale industries benefitting from reservation of products for the small. The small enterprises had no incentive to grow and absorb more workers in their manufacturing units, thus exacerbating a problem resulting from the heavy-industry first strategy of ISI.

"From the very beginning Indian plans have emphasized the importance of the small-scale sector in the process of industrialisation for two reasons. First, it was believed that the small-scale sector would use labour intensive techniques in the production of consumer goods, thus adding to the supply of consumer goods as well as creating employment opportunities for the fast expanding labour force. In this conception the small scale sector would produce a wide range of products including some modern industrial products through deliberate fostering and dispersal of entrepreneurship which, apart from bringing about industrial dispersal, would also lead to more equitable distribution of incomes. Secondly, the small-scale sector would exploit the possibilities of rural industrialization, capitalizing on traditional skills and providing employment in rural areas as agricultural productivity increased and labour was released from the agricultural sector. At the same time that the 'small' was to be promoted and protected, the expansion of the 'large' was to be checked and kept under control. The underlying objective was to check the concentration of economic power." (p. 261-2, Ahluwalia, 1997).

A third factor impacting absorption of labour in organized manufacturing or services were the plethora of central and state government labour laws. On the one hand, hardly any labour laws were applicable to the small enterprises. On the other hand, the larger enterprises, whether medium or large, became gradually subject to a number of laws passed by state or central governments, which protected the workers in the organized sector. While social insurance (in the form of employee provident fund and health insurance) was mandatory, the growing number of laws covering organized workers meant that employers tended to adopt technologies that often limited the number of workers. The number of central government laws related to labour alone amounted to 45 (in 2014, though after repeal of some the number fell to 35 by 2018), which are often inconsistent with each other, and tend to grow in their coverage as the size of enterprises increases. On top of these 35, there are state-specific labour laws that organized segment firms in industry or services have to comply with. With barely 6000 labour inspectors supposed to regulate these multitude of laws, this became a breeding ground for corrupt inspectors engaging in rent-seeking. The reaction of employers was inevitable: the fewer the workers, the better it is from their perspective. Organized sector jobs grew slowly, and most non-agricultural employment continued to grow in the always unorganized sector in micro-enterprises, with workers employed without any hope of social insurance.

The result was inevitable: a mushrooming of tiny units (employing at best 2 to 9 workers), and in addition own account workers. The latter accounted for 84% of all unorganized units in the non-agri sectors; the remaining 16% were the micro-enterprises. Together, they accounted for 99% of all non-agri units in the country (Mehrotra and Giri, 2019; Basole and Chandy, 2019)

The quality of labour supply as a factor in the rise and persistence of informality

The final factor that resulted in the growth and persistence of informality in India was the education and skill levels of the workforce. We begin by noting that 146 million (or 30 per cent) of the workforce of 485 million in 2012 are illiterate,. An additional 52 per cent (or 253 million) of the labour force are those only with education upto secondary level (class 10). (But 40 per cent of this 52 per cent have less than eight years of education.) An additional 15 million have tertiary level technical education, about half of whom have diploma or certificate level and the other half of this group has graduate level technical education. In other words, barely 3 per cent of the workforce has technical education at tertiary level, and another 7.2 per cent has general academic education at tertiary level. As recently as 2017-18, only 2.4 per cent of the workforce has formally acquired any vocational education or training.

NSS data allows an analysis of the workforce by three types of employment: self employed, casual wage labour, or regular salaried work. It is not surprising that hardly any illiterates have regular salaried jobs. Most illiterate are either casual workers or in self employment usually engaged in low productivity work. Over half of the self-employed are own-account workers, as opposed to being employed in micro-enterprises which might have 2-9 workers. Firms that employ less than 10 workers are defined in Indian official parlance as being in the unorganized sector.

Just over half the workforce has education up to secondary level. Well over half of those who have education upto secondary level are self employed. However what is more worrying is that as many as 75 million of those with secondary education actually are in casual work. Given that nearly half of all those in the work force have secondary education the fact that nearly a third of all those with secondary education are in casual work (without any social insurance) should be worrying to policy makers.

The total number of those with higher secondary education (34.4 million) and those who have graduate level education and above (35.6 million) is roughly similar in the work force. What is notable, however, is that half of those with only higher secondary education are self employed. Under a third of those with higher secondary education are in regular salaried employment (while only 15% of those with secondary education have regular salaried jobs). However half of those with graduate level education or above are in regular salaried employment. What is worrying is that nearly four million of those with higher secondary level of education are engaged in casual wage work.

What is notable is that technical education below graduate levelas well as at the graduate level and above significantly raises the probability of your getting a regular salary job than if you were a graduate with only general academic education (Mehrotra, 2015).[3] The good news is that the share in the workforce of those with any tertiary level education has risen from 7.3 per cent in 2004-5 to 10.3 per cent in 2011-12.

Both the labour market as well as tertiary education outcomes for men and women are rather different. It is well known that the labour force participation rate of women in India is well below that for men and in fact is one of the lowest in the world (at 23 per cent in 2011-12) (see Mehrotra and Parida, 2017; Mehrotra and Sinha, 2017 for an analysis). Even more worrying is the fact that it has been declining. While there were 351 million males in the total workforce of 485 million in 2012, there were only 134 million women in the workforce. Nearly half of the women in the workforce are illiterate but less than one-third of men in the workforce are illiterate.

If women acquire education upto graduate level, whether it is general or academic or technical education, there is a high likelihood they will get regular employment. In fact the probability of their getting regular employment is slightly greater with graduate education if they are women rather than if they were men.

Clearly, with a labour force that has relatively poor levels of education, it is not surprising that most of them have been absorbed, if they are not in agriculture, in traditional services, or construction, or unorganized manufacturing. In none of these areas does employment come with social insurance.

[3] The rate of unemployment of those with graduate general academic education is only slightly lower at 7.3 percent than for those with technical education below or at graduate level (8.8%).

2. Positive developments in the character of employment – despite persistent informality

Table 1: Sectoral Employment Trends in India, 2005-2018

Sectors	Absolute Numbers (in million)					
	Overall Population			Youths (15 to 29 years)		
	2004-05	2011-12	2017-18	2004-05	2011-12	2017-18
Agriculture	268.7	231.9	205.3	85.7	60.7	41.8
Manufacturing	53.9	59.8	56.4	22.4	22.1	18.5
Non-manufacturing	29.4	55.3	58.9	11.6	19.4	17.8
Service	107.3	127.3	144.4	34.5	35.7	37.6
Total employment	459.4	474.2	465.1	154.2	138.0	115.7
Unemployed	10.8	10.6	30.1	8.9	9.0	25.1
Labour force	470.2	484.8	495.1	163.1	147.0	140.7
NLET population	---	---	---	69.4	83.6	100.2
Participating in Education	---	---	---	56.8	99.0	127.0
	Share of workeers (in %)					
Agriculture	58.5	48.9	44.1	55.6	44.0	36.1
Manufacturing	11.7	12.6	12.1	14.5	16.1	16.0
Non-manufacturing	6.4	11.7	12.7	7.5	14.0	15.4
Service	23.4	26.8	31.1	22.4	25.9	32.5
WPR (%)	42.0	38.6	34.7	53.3	41.9	31.4
UR (%)	2.3	2.2	6.1	5.4	6.1	17.8
LFPR (%)	43.0	39.5	36.9	56.4	44.6	38.3

Source: Authors' estimation based on NSS Quinquennial rounds (2004-05 and 2011-12) and PLFS (2017-18) unit level data.

Total employment increased by 25.5 million between 1993-4 and 1999-2000, of which 5.1 million was in agriculture. Over the five-year period 2000 to 2005, there was an additional 22 million rise in agriculture – clearly a retrograde development, especially at a time when agricultural output was growing slowly. In other words, there was no structural shift taking place with workers moving out of agriculture until 2004-5, underlining low productivity in agriculture as a whole, and limited structural transformation in either the structure of output or of employment. While the share of agriculture in GDP in 1950-51 (soon after independence from British rule) was 54 per cent, it had fallen to 33 per cent by 1990-91, just before economic reforms began. Although the share of industry in GDP had risen sharply in the first two decades post-independence, from 14 to 21 per cent between 1950-51 and 1970-71, that share for services had seen a slow rise from 30 to 33 per cent over the same period. However, the share of industry in GDP stagnated and has barely risen to 26 per cent by 2013-14. The relative importance of Manufacturing, which contributed 16 per cent of GDP in 1990-91, has not risen at all till 2018. Meanwhile, the fall in agriculture's contribution to 14 per cent in 2013-14 has been accompanied by a rise to 60 per cent in 2013-14 of the services share.

The inadequate structural transformation is highlighted by the fact that the share of manufacturing in employment has never risen above 12.8 per cent (2011-12), after which it has fallen to 11.5 per cent in 2015-16 (Mehrotra and Parida, 2019). While the share of agriculture in total employment has fallen consistently (from 74 per cent in 1972-73) down to 44 per cent in 2015-16, the absolute number of workers in agriculture was still rising till 2004-5.

2.1 Transformation in structure of employment picked up pace, then stalls

Post 2005, for the first time in India's post-independence economic history the absolute number of workers in agriculture fell, all the way to 2018. This was a welcome Lewisian transition taking place, partly driven by surplus labour and rural distress in agriculture. In the five year period, 2005 to 2010 as many as 23.7 million of India's agricultural workforce abandoned agriculture, or nearly 10 per cent of the total workforce in agriculture. In fact, non-agricultural employment grew by 25 million, which is how total employment grew only by 1.1 million over the same period. Since 2010, non-agricultural employment increased sharply – a 27 million increase in absolute terms, while at the same time the numbers in agriculture fell by 13 million in a matter of two years. This is historically unprecedented development in India's economic history. This decline has continued since 2012, even though at a slower rate (see Table 1).

This structural shift, well evident from the employment elasticity of output by major economic sectors, is precisely the kind of progressive structural change in employment that should accompany a structural change in output between the primary, secondary and tertiary sectors in any developing economy. The opposite had been occurring between 1993-4 and 2004-5.

Non-agricultural jobs grew by 7.5 million per annum on average both during 1999-2000 to 2004-05, but this growth in employment was not rapid enough to absorb the 12 million that were joining the labour force per annum over that period. Between 2004-05 and 2011-12 too the number of non-agricultural jobs grew by 7.5 million per annum. In the recent two year period (2009-10 to 2011-12), employment in manufacturing and non-manufacturing taken together grew by 16.1 million in a matter of two years vis-a-vis an increment of 15.7 million over a five year period (during 2004-05 and 2009-10). Employment growth rate in the manufacturing sector at 8.6 percent during 2010 to 2012 surpasses the employment growth rate in all other sectors. Employment in the service sector too witnessed an sharp increase with 11 million more jobs being created post 2009-10, much higher than the 9 million increase during the five years to 2009-10.

However, the Indian economy's GDP growth slowed since 2012-13, compared to the preceding 10-year period. Even more, the growth has been much less job-creating in the non-agricultural sectors. It has not been employment-intensive enough to generate sufficient jobs in non-agriculture to absorb both those entering the labour force as well as those wishing to leave agriculture for non-agricultural jobs. In fact, as Table 1 shows, the total workforce fell in absolute terms between 2011-12 and 2017-18 by 9 mn (from 474 to 465 mn). At the same time, the open unemployment rate – which had been consistently low for decades (2.2 per cent in 2011-12) given the high levels of under-employment/disguised unemployment – shot up to a historically high level to 6.1 per cent in 2017-18 – a 45-year high. High open unemployment is partly driven by the rising levels of education in the labour force, and better education is a signifier of the relative affluence of the family, as such youth can "afford" to remain unemployed (even in the absence of unemployment benefits) (Mehrotra and Parida, 2019).

Nevertheless, even though the unemployment rate increased (especially of youth), structural change in employment was sustained. By 2017-18 the share of agriculture in total employment fell to 44 per cent (from 49 per cent in 2011-12), and the absolute number of workers in agriculture continued to fall (232 to 205.3 mn).

The rise of employment in construction

Yet another factor was the growing demand for labour in construction activity driven by real estate investments, and also by the $ 500 billion of investment in infrastructure during the 11th Plan period 2007-12, which raised this investment's share in GDP from 4 percent to 7 percent. In other words, employment in construction, which had doubled from its 2004-5 level of 26 million to 51 million in 2011-12, has gone on increasing over the years as well, though at the slower pace. Construction employment growth is central to absorbing the surplus labour in agriculture, as it requires low or limited education.

The rise in construction jobs resulted from large private and public investments in infrastructure sector, as well as in real estate/housing and development projects like Indira Awaas Yojana, Pradhan Mantri Gram Sadak Yojana and Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA). Though that pace of investment was not maintained after 2012, construction employment continued to grow, though its pace of growth fell: from an annual increase of 3.5 mn per annum to 0.66mn pa.

Slow increase in manufacturing employment and then a fall: an outcome of falling exports, rising import-intensity and inverted tariff duty structure

Employment in manufacturing grew by nearly 1 mn per annum between 2004-5 and 2011-2012 to reach 59.8 million. However, the point remains that manufacturing employment remains an issue. Manufacturing employment had increased by 11 million or 25 per cent between 1999-2000 and 2004-5 (from 44 to 55 million), but saw an increase of only 6 million 2011-12; it then actually fell in absolute terms by half a million per annum to 2017-18.

The decline in manufacturing employment was a result of three sets of factors: falling demand for manufacturing exports (Ministry of Finance, 2013), rising import-intensity of manufacturing output; and rising wages, with the latter two raising capital intensity.

There was a sharp decline in merchandise exports, particularly labour-intensive manufacturing exports of India during 2007 to 2009, on account of global economic crisis that reduced demand.The Economic Survey 2012-13 also points out that the drastic fall in the share of manufacturing exports is mainly due to the falling shares of traditional items like textiles, leather and gems and jewelry which are labour-intensive activities. The RBI's Annual Report (2011-12) mentions that capital goods production also contracted sharply and this was partly on account of substitution by imported capital goods (especially from China). Hence, investment decelerated faster than other components of domestic demand. Falling employment in labour-intensive manufactures remained the cause of falling manufacturing employment since 2011-12. At the same time the falling investment to GDP ratio (from its peak of 37 per cent of GDP in 2007-8 to 29 per cent of GDP in 2018) was also responsible.

Rising imports of manufactures first resulted from a sharp fall in tariffs from 1991 to 2002 (from average tariffs of 150 per cent to less than 10 per cent). But more importantly India's tariffs have suffered from an inverted duty structure (IDS). IDS constitutes negative protection in India's merchandise industries. This is because if Effective Rate of Protecction (ERP) is positive in the presence of IDS, then the latter may not affect domestic industries as the structure of tariff is still giving them protection.[4] But if the opposite holds true, then

[4] As per conventional method, ERP is defined as the percentage excess of domestic value added due to imposition of tariff and non-tariff barriers over free trade value added at international prices.

the tariff structure may severely impact the domestic as well as international position of India’s manufacturing industries, which are growing slower than potential growth since 1991.[5]

This often encourages manufacturers to import final goods from China and other neighbouring countries as costs of production at home turned higher than imported final goods. Many countries in the world have witnessed a rising share of China in their import basket.[6] The result has been that the share of manufacturing in employment, which was rising till 2011-12, fell back to 12.1 per cent in 2017-18. There was an absolute fall in the six years of manufacturing employment.

Services employment grew: both producer and consumer services

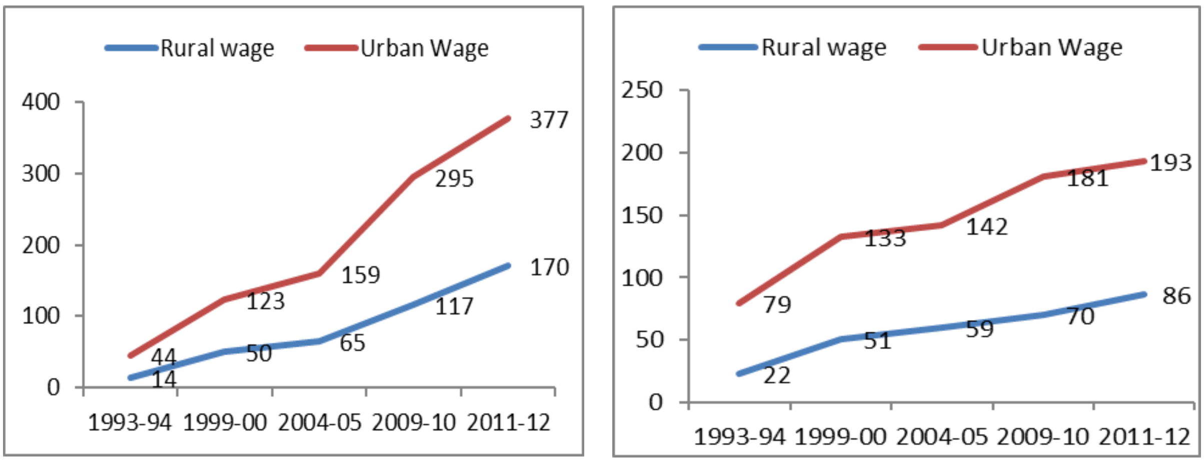
The share of services in total employment has continued to grow, from 23.4 per cent in 2004-5 to 26.8 per cent in 2011-12 to 31 per cent in 2017-18 (Table 1). The services driving employment growth have been: sale and repair of motor vehicles;hotels and restaurants;; land and water transport; telecommunications; financial intermediation; computer and related activities. Finally, education, health services and arts/entertainment services have also seen an increase.

2.2 Wage increases have raised incomes

Job growth in the non-agricultural sector (despite the relatively poor performance of manufacturing) have enabled real wages to grow. As workers left agriculture, the labour market tightened in rural areas, which had knock-on effects on urban wages (see Table 2 and Figure 1).

Figure 1: Trends of Nominal and Real wage rates (at 2001-02 prices) in Rural and Urban India, 1994-2012

A. Trends of Nominal wages **B. Trends of Real Wages**



Source: Authors’ estimates based on NSS unit level data, various rounds

The rural public works programme MGNREGA, which started in 2005, not only raised wages in public works, but it offered an alternative on a massive scale to working on the landlord’s farm for landless labourers for the first time in India’s history. Person-days of

[5] The Finance Minister attempted to correct the IDS in electronics after 2014 but it only led for a while to domestic assembly, without any manufacture of integrated circuits. The infant industry argument requires that the entire value chain needs protection for a limited period of time.

[6] China ranked one in merchandize exports to the world with a market share of over 10 per cent in 2010 compared to a share of less than 2 per cent in 1998 (Husted and Nishioka 2012).

work generated under MGNREGA was much higher than ever before (Mehrotra, 2008). The additional work available within the village also had the effect of shifting the labour supply curve to the left locally, but also in areas where surplus labour would hitherto migrate in search of work. A second factor underlying rising rural wages was a sustained rise in the Minimum Support Price offered to farmers for a few staple cereal crops, which enabled them to pay higher wages. An additional factor leading to a rise in wages was the sustained increase in construction related employment, especially in urban but also in rural areas. In fact, construction employment, which was 25 mn in 2004-5, rose sharply to 51 mn by 2011-12 – an unprecedented rise in construction jobs. The rise in off-farm jobs at the rate of 7.5 mn per annum was generally very important to the sustained trend of rising wages.

Moreover, labour contractors highlight that a combination of improved governance and a sharp pick-up in GDP growth in traditional labour-supplier states such as Bihar and Chhattisgarh resulted in increased demand for labour in these states, leading to a decline in labour availability in states such as Maharashtra, Karnataka and Punjab, which have historically relied on labour-supplier states for their requirements (Mukherjee, 2013).

While this was the situation for workers at the lower end of the wage and skill distribution, a similar development was occurring at the higher end of the salary/skill distribution. Between 2003-4 and 2013-14 GDP grew by 8 percent per annum. Since it was both industrial (manufacturing and non-manufacturing) and services growth that was driving the GDP, skill shortages emerged at the higher end of the salary/skill distribution increasing salaries of the skilled and highly skilled (ILO, 2018)

These two sets of forces that were driving wages for the unskilled as well as salaries for the skilled/highly skilled were also driving greater capital-intensity in goods and services production. Even though non-agriculture job growth slowed after 2011-12 as investment rates fell, real wage has stagnated since 2011-12, as non-agri job growth fell (Mehrotra and Parida, 2019).

2.3 Poverty declined in absolute terms – a new stage in India's development?

As wages rose there has been a steep reduction in poverty rate in India, more remarkable in rural areas and a new surge in consumption. The incidence of poverty had been declining consistently since 1973-4 in India. However, it is for the first time in India's post-independence history that the absolute number of the poor in India began to fall. The percentage of rural persons below the (Tendulkar) poverty line as estimated by the Planning Commission had fallen to 25.7 per cent in 2011-12 as against 41.8 per cent in 2004-05. But as we noted earlier, the absolute number of poor had remained constant until 2004-5.

As per NSS[7] the share of food expenditure (in both rural and urban areas) is declining, whereas the share of non-food expenditure is increasing at a much faster rate recently. In rural areas, as total consumption expenditure was growing in real terms, the share of expenditure on processed foods and beverages increased from 4.5 per cent to 5.8 per cent, on clothing and bedding increased from 4.5 per cent to 6.3 per cent, on durable goods increased from 3.4 per cent to 6.1 per cent and on footwear also increased form 0.8 per cent to 1.3 per cent during 2005-2012.

In the period of high economic growth, salaries in urban India increased steadily, because of the sixth Pay Commission, which also had a knock-on effect on private sector wages, particularly in the upper quintile of the wage distribution. This is reflected by the high rise in wages among professionals, personnel in administration and also among plant

[7] See NSS KI(68/1.0): Key Indicators of Household Consumer Expenditure in India (Page no. 20)

and machine operators (see Figure 1). In urban areas, as total consumption expenditure increased, within it the share of expenditure on processed foods and beverages increased from 6.2 per cent to 7.1 per cent, on clothing and bedding increased form 4 per cent to 5.3 per cent, on durable goods increased from 4.1 per cent to 6.3 per cent and on footwear also increased from 0.7 per cent to 1.2 per cent during 2005-2012.

2.4 The quality of employment: a fall in the self-employed and casual wage work, and rising regular wage work

Of the 60 million increase in jobs during 2000-2005, about 30 million rural workers (women comprising 60 percent of that number, who were often aged women) joined the workforce as self-employed in agriculture, owing primarily to declining earnings capacity of the usual income earners and productivity stagnation in the agriculture sector.

The absolute decline in agricultural employment in the latter half of the decade, could have forced the self-employed, smallest and marginal farmers to migrate out for sustenance. Moreover, the presence of alternative employment opportunities in construction at relatively higher wages also induced a move out of agriculture, which shows itself in an increase in casual labour in non-manufacturing (see Table 3). The rise in construction employment is reflected, partly, in the boom in rural male casual workers - 16 million new jobs for them.

However, what is important is that around 10 million new workers found regular salaried employment in the non-agricultural sector during 2000 and 2005, or about 2 million per annum. Another 7 million obtained regular jobs during 2005-10 and then another 12.8 million more regular salaried jobs were created during 2010 and 2012; or nearly 3 million per annum (see Table 1). This rise in regular work is a reflection of the very rapid GDP growth that occurred between 2003-4 and 2011-12 of 8.4 per cent per annum. The fact that organized sector work has been rising throughout the period of rapid economic growth is similarly reflected in the continuous increase in regular work.

The share of regular wage workers rose from 14.3 per cent in 2004-5 to 22.8 per cent in 2017-18, while the share of self-employed workers fell, though not significantly, from 56.9 per cent to 52.2 per cent over that period). More positively, the share of youth (15-29 years) in regular work rose from 22 per cent to 33.4 per cent over the same period (Mehrotra and Parida, 2019).

Table 2: Types of employment generated across the sectors in India, 2005-2018

Name of the States	Agriculture & Allied			Manufacturing			Non-manufacturing			Service			Total		
	2004-05	2011-12	2017-18	2004-05	2011-12	2017-18	2004-05	2011-12	2017-18	2004-05	2011-12	2017-18	2004-05	2011-12	2017-18
Absolute number of overall employment (million)															
Own account worker	78.1	80.8	94.7	18.4	20.7	18.3	4.1	4.8	5.2	42.6	49.2	52.0	143.6	155.5	170.2
Employer	3.2	3.4	3.6	0.8	0.9	1.4	0.3	0.4	1.0	1.8	2.2	3.2	6.1	6.9	9.2
Unpaid family worker	90.6	66.9	52.0	9.5	7.8	4.1	0.4	0.5	0.3	11.1	10.1	7.1	111.6	85.3	63.5
Sub-total Self-employed	172.4	151.1	150.3	28.7	29.3	23.8	4.8	5.7	6.4	55.5	61.6	62.3	261.3	247.7	242.8
Regular salaried/ wage employee	2.9	1.9	2.5	15.9	20.5	23.4	3.0	5.3	6.1	43.6	56.9	74.2	65.5	84.7	196.2
Casual wage workers	93.4	78.9	52.4	9.3	9.9	9.2	21.6	44.3	46.4	8.2	8.8	8.0	132.5	141.9	116.0
Total employment	268.7	231.9	205.3	53.9	59.8	56.4	29.4	55.3	58.9	107.3	127.3	144.4	459.3	474.3	465.0
Share of overall employment (%)															
Self-employed	64.2	65.1	73.2	53.2	49.1	42.2	16.3	10.3	10.9	51.7	48.3	43.1	56.9	52.2	52.2
Regular salaried/ wage employee	1.1	0.8	1.2	29.6	34.4	41.5	10.2	9.5	10.3	40.6	44.7	51.4	14.3	17.8	22.8
Casual workers	34.8	34.0	25.5	17.2	16.6	16.3	73.4	80.2	78.8	7.7	6.9	5.5	28.9	29.9	24.9
Total	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100

Jobs in organized or unorganized segment enterprises?

Official definition of organized segment enterprises is those non-agricultural units that employ more than 10 workers. The key driver of the increase in employment during 2000 to 2005 had been the unorganized sector enterprises (as per NCEUS definition[8]). Of the 60 million new jobs generated during that period, 52 million were created in the unorganized segment of enterprises (Mehrotra et al 2013). Agriculture (in which employment grew by 20 million) accounted for nearly 40 per cent of this increase.

[8] "The informal sector consists of 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 total workers"

Table 3: Types of Non-farm employment (Organized-Unorganized & Forma-Informal) in India, 2005-2018

Non-farm Sector of Employment	Type of Employment: Organized and Unorganized Sector											
	Absolute number of employment (million)						Share of employment (%)					
	Organized			Unorganized			Organized			Unorganized		
	2004-05	2011-12	2017-18	2004-05	2011-12	2017-8	2004-05	2011-12	2017-18	2004-05	2011-2012	2017-2018
Manufacturing	15.3	20.7	18.1	38.6	39.1	38.4	28.4	34.6	32.0	71.6	65.4	68.0
Non-manufacturing	9.2	22.3	15.4	20.2	32.9	43.5	31.2	40.4	26.2	68.8	59.6	73.8
Service Sector	29.5	40.3	43.2	77.9	87.0	101.3	27.5	31.7	29.9	72.5	68.3	70.1
Non-farm Total	54.0	83.3	76.7	136.7	159.0	181.1	28.3	34.4	29.5	71.7	65.6	70.5
	Type of Employment: Formal and Informal											
	Formal (million)			Informal (million)			Formal (%)			Informal (%)		
Manufacturing	5.6	6.5	8.7	48.3	53.3	47.7	10.4	10.9	15.4	89.6	89.1	84.6
Non-manufacturing	2.1	2.9	3.1	27.3	52.3	55.9	7.2	5.3	5.2	92.8	94.7	94.8
Service Sector	20.6	25.4	31.1	86.8	101.9	113.4	19.2	19.9	21.5	80.8	80.0	78.5
Non-farm Total	28.3	34.8	42.8	162.4	207.5	217.0	14.8	14.4	16.5	85.2	85.6	83.5

Source: Authors' estimates based on NSS various Rounds. Notes: 1. The percentages add upto 100 across rows for each point of time. 2. Organized is defined as those enterprises that employ 10 or more than 10 workers, and unorganized as those with less than 10 workers.

Since 2000, organized manufacturing employment has consistently increased, albeit slowly, all the way up to 2011-12. Similarly, employment in unorganized services and non-manufacturing industry (most of which is in construction) consistently rose since 2000. It is only that manufacturing employment has shown fluctuations, and all the fluctuation in manufacturing employment since 2000 is accounted for by unorganized segment of manufacturing (not organized segment). When manufacturing employment rose most of the rise was in the unorganized segment, and when it fell it was again in the unorganized segment.

There is an important improvement that has occurred even in construction sector. Given the increase in infrastructure (airports, national highways) investment by the public as well as private sector, there has been a sharp rise in organized segment employment in the construction sector of non-manufacturing industry. In fact, in 2011-12, nearly 40 per cent of total construction employment was in the organized segment.

However, that process was reversed as public investment began to taper off after credit growth slowed, as the non-performing assets of banks in India rose. The result has been that most of the construction work is probably being carried by small firms, with relatively fewer employees – hence the growth in unorganized segment employment in India, particularly driven by the non-manufacturing industry. The contribution of manufacturing and services to unorganized employment is relatively much smaller, compared to non-manufacturing.

2.5 Formal and informal employment

Though there had been increase in employment opportunities in the organized sector, it was mainly for informal[9] workers between 1999-2000 and 2011-12. Informal workers' share rose from 32 per cent in 1999-2000 to 50.9 per cent in 2004-05 to 60.4 per cent in 2011-12 of all non-farm organized sector employment (Table 3). This rise was driven by the rigidity of labour laws. The duality of the labour market has a mirror image in the duality of labour laws. Almost all workers in the unorganized sector are informal, in that they do not have access to social insurance. Even more importantly, almost none of the labour laws tend to apply to the unorganized sector; at the same time, most labour laws are applicable to the organized sector, and the number of laws tends to rise as the number of workers in an enterprise rises. Please note that we don't hold the view that duality of the labour market (i.e. the growth of unorganized sector, where most of the informal workers in the country are concentrated) is only due to the labour laws. There are other factors (e.g. the legacy of SSI reservation, access to land, etc.), as we have argued above. However, there is little doubt that the switch to contract labour within the organized segments of industry and services is very much driven by labour laws (see

Since 2011-12 there has been an increase in the share of unorganized sector workers. As Table 3 shows that the absolute number of workers in the unorganized sector grew so sharply that their share increased, reversing a trend since 2000 where the unorganized sector share was falling. This is probably a result of the rise in open unemployment, as growing unemployment reduced the bargaining positon of works, and non-agri jobs were growing much more slowly than before (especially in construction and services, while in manufacturing they actually fell).

However, there was one other development: the share of formal workers in the organized sector, which was falling after 2000, started to rise. One game-changing law

[9] As per NCEUS Definition, "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".

(Goods and Services Tax in July 2017) has brought some change, but mainly encouraging the slightly bigger micro-enterprises to register with the GST administration. GST is showing signs of being to some extent transformative for formality. GST is levied at every step in the production process, but is refunded to all parties in the chain of production other than the final consumer. Goods and services are divided into five tax slabs for collection of tax - 0 per cent, 5 per cent, 12 per cent, 18 per cent and 28 per cent (the last one for luxury, demerit goods). As a result of the introduction of GST, a large increase has occurred in number of indirect taxpayers; many have voluntarily chosen to be part of GST, especially small enterprises that buy from large enterprises and want to avail themselves of input tax credits. Increase in number of indirect tax payers spells growing formality of erstwhile informal firms. We find that as a result of GST India's formal sector non-farm payroll is substantially greater than currently believed. Formality defined as social security provision yields an estimate of formal sector payroll of 31 per cent of nonagricultural work force; formality defined in terms of being part of the GST net suggests a formal sector payroll of 53 per cent (Ministry of Finance, 2018). We will have to wait to see how this law plays out.

3. Concluding remarks

To summarise, this paper has made two arguments. First, despite now being the fastest growing large economy in the world, India is still suffering from the damaging effects of policy-induced informality in the workforce from the first four decades after independence. The slow pace of growth over 1950 to 1980, combined with a pattern of growth that was heavily dependent upon a heavy-industry first strategy plus reservation of products for small firms, led to massive undergrowth of millions of unregistered firms, employing workers in conditions of work and wages characteristic of informal firms. Labour laws – too many of them only applicable to the organized, registered firms – did not help. These factors undercut the demand for workers in the formal or organized sector. The supply-side factor that most reinforced these conditions was the low investment in schooling by the state, resulting in the poor educational level of the workforce, who were only employable in the informal economy.

However, a number of positive developments have taken place in the nature of work since the pace of GDP growth picked up in the Indian economy since 1991. First, after a lag (from 2004 onwards), the absolute numbers in agriculture began to fall as non-agricultural growth picked up. We noted earlier that 36 million fewer persons are engaged in agriculture in 2011-12 compared to the number in 2004-5 – a first in the economic history of India. Another 27 mn left agriculture over 2011-12 to 20171-8. A Lewisian structural change is occurring. A set of push and pull factors caused this Lewisian (Lewis, 1954) turning point. During the second half of the decade there had been a remarkable and historic shift in rural wages, partly due to the spillover effect of MGNREGA, on the one hand, and shortage of labour partly due to higher participation in education, that forced the farmers to start using machines (Saha et al, 2016). In addition, rising demand for labour in the construction sector, both in rural and urban areas, with relatively higher wages also partly explains the absolute fall in agricultural employment post-2005.

Second, there has occurred a rising share of industrial employment, mainly in construction, less so in manufacturing; in fact, the share of organized employment within construction increased. Third, there is evidence of a rising share of organized segment (employing more than 10 workers) workers in non-agricultural employment, from 12 per cent in 1999-2000 to 22 per cent in 2011-12, though there is a slight reversal after that. Fourth, there is a rising share of regular wage employment, as opposed to merely casual wage employment. Sixth, all this showed itself in rising real wages in both rural and urban areas till 2011-12, but that has stalled since non-agri job growth fell, and open unemployment rose sharply. Seventh, the share of formal enterprises has risen thanks to the Goods and Services Tax; it has also contributed to a slight rise in formal workers in total workforce. Finally, although the education level of the workforce is still a source of worry, but the general academic level of the youthful part of the workforce has improved sharply within this last decade.

All these positive factors do tend to temper or mitigate the disadvantages of informality in India's growing workforce. If the state initiates efforts as early as possible to provide social insurance coverage to the poor among the unorganized segment, informal workers, this process will constitute a huge gain for the realization of the rights of workers.

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