India's suboptimal use of its labour power


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A vast majority of Indians earn the entirety of their incomes through labour as opposed to ownership of capital or land. Further, about 90% of the working Indian population earns its livelihood through informal employment that is characterised by little or no job security, no employment benefits, no social protection, and lower earnings. The informally employed are primarily concentrated among casual labourers and the self-employed, but exist even in some segments of those who are classified as regular wage or salaried workers.

Therefore, whatever is happening to the GDP growth rate — which tends to occupy the headlines concerning the economy — or how that translates into improvements in the standards of living of the masses, in the end, depends on what is happening to the labour market — are new jobs being created? Are better jobs being created? Are wages going up?

A deeper reading of improvements

At first glance it would seem that things have improved in the recent past for which we have yearly data from the Periodic Labour Force Survey (PLFS), beginning 2017-18, which replaced the earlier periodic National Sample Survey (Employment-Unemployment). Overall, the Labour Force Participation Rate (LFPR) has gone up steadily to 58.35% in 2021-22, starting at 52.35% in 2017-18, a trend that is being driven largely by women in rural areas. This goes against the long-term trend towards decreasing LFPR over several decades since liberalisation. Moreover, the overall unemployment rate has also declined from 6.2% in 2017-18 to 4.2% in 2021-22. For the youth, the unemployment rate numbers are higher (12% in 2017-18 to 8.5% in 2021-22) but display the same downward trend. For both the LFPR and the unemployment rate, the very latest data available for 2022-23, display the same trajectory.

Do these improvements signal dynamism in the labour market in terms of job creation and wage growth? What is happening to the composition of the jobs and the earnings? In a recent essay with Jitendra Singh of Ashoka University, we looked at this question carefully, comparing the trends over the more recent period with longer-run trends.

When we look at the different categories of the employed, namely, regular wage/salaried work, casual work, and self-employment and their trends, we can see that the improvements in LFPR and the drop in the unemployment rate are largely driven by self-employment. The self-employed come in three categories — own-account workers, unpaid family workers, and employers who employ outside labour. A disturbing trend emerges if we look at them separately to identify which subcategory explains the overall rise in the self-employed. While the fraction of the self-employed who are employers has gone up marginally by less than one percentage point from 3.78% in 2017-18 to 4.57% in 2021-22, the bulk of the growth in self-employment has come from the rise of unpaid family workers, which has increased from 26% to 31.4% over the period.

> The economy continues to engage a majority in low quality work, which has larger macroeconomic growth repercussions

Though the absolute number of workers in each employment type is increasing over the period of study, within the employed pool, the sharpest rise is seen in the proportion of unpaid family labour such as a helper in the family-run *kirana* store. Further, own-account workers such as someone running a corner shop or selling tea and snacks on a cart constitute the largest chunk of the employed population at close to 35%. The proportion of other subcategories within the employed (regular wage/salaried employee, casual labour, employer, and own-account worker) has dropped between 2017-18 and 2021-22. Together, this reflects a worsening of the quality of work being done by the workforce. Given that the seeming dynamism in the labour market has come from a subcategory of the self-employed — a category which itself is considered to be a main component of informal employment and, therefore, precarious in nature — it is cause for worry.

In terms of earnings

Does the evidence from earnings allay some of these worries? Unfortunately, the state of the labour market does not appear to fare well in terms of earnings too. At the most aggregate level, the all-India average real daily earnings increased by around ₹10 (in 2010 prices) between 2017-18 and 2021-22, about a 4% increase. Both rural and urban daily earnings increased on an average between ₹10 to ₹14 (in 2010 prices). However, this overall increase was not uniform for workers in all employment types. In general, the average earnings of wage and salaried workers are the highest among different categories of workers, followed by the self-employed and then the casual workers. The average daily earnings for both the salaried and the self-employed stagnated over the period, showing no increase in real terms. However, those in casual work saw an increase from ₹162 a day in 2017-18 to ₹196 a day in 2021-22, which is about a 20% increase; this is the category that is responsible for the moderate increase in the overall average earnings of the employed. While this is a positive development, we must put it in context: even with a 30-day work month, casual workers were making ₹6,000 a month at 2010 prices (or, ₹11,520 in 2021 prices). Note that this is barely above the poverty line of ₹4,080 a month in rural areas and ₹5,000 a month in urban areas (poverty lines in 2011-12 prices).

To sum up our findings, while the rise in the LFPR and fall in the unemployment rate since 2017-18 appears to be a positive sign, closer examination suggests that the self-employed category of work saw the highest growth in employment generation between 2017-18 and 2021-22. And within that, it was the subcategory of unpaid family workers which saw the most growth in numbers. Not surprisingly, the earnings for the self-employed did not record any discernible improvements. The most desirable category of the employed (regular wage and salaried workers) did not see any real increase either in its share in total employment or in average earnings. In fact, the top 20% of salaried workers saw a drop in their real daily average earnings over the period. Though casual workers as a category saw a slight decrease in its share of total employment, their average earnings experienced moderate growth.

Phase of demographic dividend

While this is a matter of concern from the welfare perspective (i.e., how is economic growth affecting the job prospects and earnings in the labour market?) it also has larger macroeconomic growth repercussions. Taken together, own-account workers, casual workers, and unpaid family workers form more than three quarters of the employed. That is to say, more than three quarters of our working population is engaged in work which is typically of low productivity.

To put it in context, India is in its period of demographic dividend which is expected to peak in less than 20 years and exhaust in roughly another 30 to 35 years. In this golden period of reaping labour productivity, the economy continues to utilise its labour capital in a suboptimal fashion by engaging a majority in low quality work. Moreover, given that the poorer sections tend to spend a greater fraction of their incomes, their stagnant earnings also do not augur well for the demand-side of the economy coming from consumer expenditure, given that the investment to GDP ratio has been steadily declining — thereby raising the spectre of a vicious cycle.