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Hiding in labour data, a tale of economic distress

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More than half the workforce engaged in low-productivity activities, combined with no significant rise in earnings from livelihood does not bode well for growth

The recent statements by the Union labour minister Mansukh Mandaviya rightly suggest that the labour force participation rate is up and the unemployment rate is down based on data from the Periodic Labour Force Survey (PLFS). He, however, goes on to conclude that the labour market is thriving in India, reflecting the economic dynamism generated by the growth process. Not just that, this tide of apparent job creation has managed to push the female labour force participation rate up since 2017-18, reversing the earlier downward trends.

PREMIUMA labourer cleans a high rise window at a hotel in Amritsar on December 24, 2024. (Photo by Narinder NANU / AFP) (AFP)

Drawing this inference simply from the broad overall trends is puzzling because this period generally experienced a sustained slowdown starting around 2017, well before the pandemic. Growth rates of per capita Gross Domestic Product (GDP) fell for four consecutive years. It recovered a bit in the post-pandemic period, but the sluggishness persists if we look at growth rates in the last four quarters. Juxtaposed with the labour market trends, this poses a puzzle. Are these trends correlated with the creation of good jobs and improvement in the livelihoods of workers? Instead of getting warped singularly around the macro performance indicators of employment and economic growth (which we will also address later), here we examine the outcomes for the individual units that collectively make up the macro picture and not in a simply additive fashion. So in an economy experiencing steadily falling unemployment numbers, is it that the individuals who collectively make the economy are also on average living better?

A first look at the data suggests that the employment numbers are concealing a picture suggestive of economic distress rather than an improved livelihood for the large proportion of now-employed population. If we were to compare the earnings of an average Indian worker over time (in constant 2016 prices to control for inflation), they were making around ₹353 per day in 2017-18. This increased by ₹10 over a period of seven years to ₹363 per day in 2023-24. Note, this is irrespective of the kind of work they were doing, the industry they were involved in, the sector they reside in, or their gender. Average earnings for self-employed workers went down by ₹7 from ₹324 per day in 2017-18 to ₹317 in 2023-24. Average earnings for the salaried workers went down from ₹497 per day in 2017-18 to ₹492 in 2023-24. For daily wage workers (casual workers), this increased from ₹250 per day in 2017-18 to ₹297 in 2023-24.

While a simple comparison of earnings from the different sources of livelihood should caution us from celebrating the falling unemployment numbers, concern should arise even from the kind of work our workforce is increasingly engaged in. Is a growing economy offering more jobs to people or are people compelled to self-employ themselves to cope with falling and/or stagnating earnings in the face of rising inflation and so leading to higher levels of distress? PLFS data itself suggests the latter. The entire landscape of the workforce is changing with increasing shares of self-employed workers (from 52% to 58% over the seven-year period) and shrinking shares of the salaried class (from 24% to 23% over the seven-year period). The pattern is also seen in the rise of female workers.

Employment generation does not appear to be induced by economic growth and therefore, increased labour demand. The kind of work that an increasing proportion of the population is getting engaged in is also synonymous with low-productive jobs. So even in terms of their role in feeding into the engine of economic growth generating further rounds of job creation and spreading prosperity, the contribution is sub-optimal.

Our earlier research discusses in detail the worsening quality of employment in India since 2017-18. There is also evidence to show that households are coping with the rising distress by sending more people from within the household to work. It is only by doing so that they can cope with the falling earnings per worker in the household to barely maintain their household labour income over the seven-year period from 2017-18 to 2023-24.

There has also been a fair bit of public discussion of views expressed by top corporate leaders like Narayana Murthy and SN Subrahmanyan that Indians are not working hard enough and exhorting them to work on Sundays or 70 hours a week. The irony is, for a vast majority of India's workforce that is indeed what they are doing. The International Labour Organization (ILO) estimates that more than 85% of the Indian workforce in 2023 was engaged in the informal sector. Given that an increasing share of the workforce comprises single-worker "enterprise" or unpaid helpers in the family — with falling per-worker earnings and more people in the household working — it looks like economic distress is compelling an overwhelming majority of the workforce to do precisely what is being suggested, leaving aside the merits of the argument within the organised sector to which it was presumably directed at.

Deteriorating livelihood conditions — on even a most elementary view of earnings — combined with the numbers of an overwhelming majority of the workforce (55%) working as either a single-worker enterprise or an unpaid helper in low-productivity jobs should be a source of concern not just from the lens of the living conditions of the poor. More than half the workforce being engaged in low-productivity activities, combined with no significant rise in earnings from their livelihoods does not bode well for economic growth.

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