

General Studies – 3 Topic: Indian economy – employment

India's Informal Labour Force

1) Introduction

- As per international definitions, informal sector enterprises are those owned by individuals or households that are not constituted as separate legal entities independent of their owners.
- The Indian labour market is characterised by predominance of informal employment with more than 90 per cent of India's informal workforce working as self-employed and casual workers.
- Reports based on the periodic employment and unemployment surveys (EUS) conducted by NSSO suggests that only a small share of employment is in the organised sector
- The contribution of unorganized sector to GDP is about 50%
- Among the unorganized sector, a considerable proportion (about 65%) is engaged in agricultural sector, which indicates the prominence of rural segment in the informal economy.

2) Nature of Informal Sector

- In 2004-05, the composition of organized vs unorganized was 13:87; while in 2011-12, this had changed to 17:83.
- The growth in organized employment was informal in nature. So, even within the organized sector, formal employment declined significantly and informal employment rose with time.
- Even in those states of India that achieved a high labour reform index, like Gujarat and Andhra Pradesh, the jobs that were created were overwhelmingly informal in nature.
- The distribution of informal employment shows that manufacturing, construction and trade, hotel & restaurant are the main employment generating sectors.
- There is an overwhelming share of non-agricultural employment is in the "informal sector".
- Women are found to be over-represented in the informal sector because the flexibility, especially in home-based work.

3) Reasons for entering Informal Labour Force

- Lack of labour reforms is the main culprit that has kept employment in India low and informal.
- Despite high growth, most sectors chose to employ labour informally because it lowered their overall costs.
- labour market rigidities, poor skill levels, increasing competition from imports as the factors inducing creation of informal employment
- 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 aspirational skills.
- In India the level of education is low and there is lack of vocational skills

4) Concerns

- Benefits of Indian economic growth are concentrated among a few, while a growing proportion of the population has been relegated to living as working poor.
- The worrying trend is the increasing rate of informal employment even in the organised sector.
- It is regulation that is responsible for the proliferation of unorganised units and informal employment.
- Informal sector in India suffers from a low productivity syndrome, compared to the formal sector.

- The sector is characterized by excessive seasonality of employment (especially in the farm sector), preponderance of casual and contractual employment
- Absence of social security measures and welfare legislations
- Poor human capital base (in terms of education, skill and training) add to the vulnerability and weaken the bargaining strength of workers in the informal sector.

5) Social security measures

- A number of directive principles of state policy relating to aspects of social security were incorporated in the Indian constitution.
- Both the central and state governments have formulated certain specific schemes to support unorganized workers
- Atal Pension Yojana, Pradhan Mantri Suraksha Bima Yojana (PMSBY), Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) and MUDRA Bank
- MUDRA Bank will refinance Micro-Finance Institutions through a Pradhan Mantri Mudra Yojana.

6) Need of the Hour

- There is a need to make serious efforts at facilitating a widespread environment that will develop a formal culture in India's labour markets.
- Demonetisation has the potential to facilitate an environment that will develop a formal culture in India's labour markets
- The need of the hour is to generate an enabling environment that will develop the urge of "formal" culture in the labour market
- Skill development of the labour force would improve the quality of the workforce as well as the status of employment.
- Need for access to finance, better infrastructure, market information, government incentives and a platform for formal association
- Improvement in skill levels of the workforce that match the requirements of the job market