

# INDIA'S LABOUR MARKET: THE ISSUES AND THE PLAUSIBLE RESPONSES

## Abstract

Indian economy has come a long way from the precarious condition of the Covid era to become the 4th largest economy in the world. Its recovery from the pandemic has been better than most other economies. But this has not prevented it from being confronted by some serious issues arising out of the functioning of its labour market in particular which may have serious ramifications for the economy in future. An attempt is being made here to understand the present-day labour market scenario, analyse the reasons behind the emergence of the confronting issues and consider the likely policy responses for tackling them.

## Introduction

Indian economy has been one of the fastest growing economies in recent times. In the post-pandemic era when most of the major economies are striving hard to recover, Indian economy has been performing impressively both on the domestic and external fronts. It has achieved a sustained GDP growth of more than 8% since 2021-22 along with strong macroeconomic fundamentals. Despite all this, some serious issues originating from the labour market are confronting the Indian economy. The issues are not only affecting the economy at present but are sounding warning bells for the future.

## Labour market issues

India's labour force of 593 million is second only to China in size. The labour force comprises of both formal and informal segments. About 82% of the labour force constituting the informal segment is either employed by small business establishments or is self-employed, India Employment Report(2024). Till 2019, the labour force was going through a transition as there was a slow but steady movement



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of it away from agriculture to non-farm sectors. But the onset of COVID reversed the transition and the share of agricultural employment again began to rise. At present, about 45% of the Indian workforce is engaged in agriculture but a major portion of that is disguisedly employed making very little productive contribution. The overall unemployment rate which was hovering around 2% since independence also started worsening after 2011-12 reaching to 6.1% by 2018, the highest in the post-independence period, Mitra and Singh(2019). The rise in unemployment has been unabated with an increase in both rural and urban unemployment. The rural unemployment in particular has experienced a significant rise. The overall unemployment rate stood at 8.7% in June, 2024, CMIE(2024) but the most disturbing feature is the average unemployment rate of 10.2% in the (15-29) year old group at the all-India level, PLFS (June, 2024). The increase of unemployment rates over the years may be observed from Table-1 below.

TABLE-1 : Rising unemployment rates over the years

Year	Unemployment Rates
2012	2.1%
2015	3.9%
2018	6.1%
2024	8.7%

Source : Mitra and Singh (2019) & CMIE (June, 2024).

The scenario has been further complicated by the problem of falling real wages. According to the latest government estimates, all sections of workers except urban male, have experienced a sustained decline in their monthly wage levels during the period of 2017-18 to 2023-24, PLFS (June, 2024). The high unemployment levels and stagnancy in real wages continuing over the past five years have adversely affected the purchasing power of India's middle class resulting in a significant decline in their consumption levels. The decline in the consumption levels of Indian middle class from whom comes 70% of India's consumer demand have led to a fall in the share of private final consumption expenditure in GDP from around 70% in FY23 to 58.5 percent in FY'24. Consequently, the GDP growth during FY24-25 has been around 6.5% which is the lowest among the last four years and much below the projected rate of 7.2%.

The key factor that could be responsible for the sustained high unemployment levels and stagnating real wages is the declining demand for labour which can be understood from the falling employment elasticity in Indian industry. Employment elasticity which indicates the intensity of labour usage in the production process is calculated as the percentage change in employment due to every 1% change in the level of output. It can be observed from Table-2 below that the Indian industry has experienced a sustained decline in employment elasticity from 0.57 in 1970s to 0.15 in recent times.

TABLE-2 : Declining Employment Elasticity over decades

Period	Employment Elasticity
1970s	0.57
1990s	0.18
2020s	0.15

Source : Misra and Suresh(2014) & RBI

This implies that while a 10% expansion in real output resulted in near about 6% increase in the employment level during 1970s, the same 10% rise in real output leads to only 1.5% increase in the employment level now. Thus, it can be observed that the intensity of labour usage in Indian industry has been going down. But why is it so?

### Labour Policy: Issues & Reforms

From the studies undertaken to identify the

determinants of employment elasticity in Indian industry it can be observed that orientation of the policy regime is a very important one. In one such study, undertaken by Irshad & Qayed( 2023), a negative relationship between employment elasticity in Indian industries and the adoption of reform measures has been observed. This is quite plausible. Since the very beginning of the public sector- oriented industrialisation after independence, the issue of labour welfare was of utmost importance, Srinivasan(2006). Accordingly, the public sector enterprises focused not on generating profits but on providing long-term permanent employment opportunities to the labour force and ensuring their post-retirement financial security through adequate social security measures, Sharma (2014). The PSUs could bear the huge financial burden that they incurred for pursuing such a policy as they had the full financial support of the government. But as private sector-centric industrialisation was initiated in early 1990s the welfare approach took a backseat and the industries focused on reaping of more profits, Sharma(2014). In the absence of a flexible need-based labour hiring system, the private sector found the maintenance of large permanent workforce the cause of huge recurring expenses which was affecting their profitability. Consequently, they started reducing the labour usage in the production processes by switching over to more technology intensive production system which led to a steep decline in employment elasticity. To alter the situation there was a need for a change in the policy regime and in keeping with it labour policy reforms were initiated. It attempted a rationalisation of the complex structure of Indian labour laws trying to work out a balance between the need of a flexible labour hiring system, easy Exit option, and financial security of the Indian labour force, <http://labour.gov.in>. By allowing the use of fixed-term contractual labour in all types of productive activities, government has taken the step towards a flexible labour hiring policy where size and duration of employment will be determined by production requirements. Besides, a definitive step has also been taken towards creation of a business-friendly Exit Policy, by allowing firms employing up to 300 people to go for retrenchment of labour or closure in case of any such need without prior permission from the government, [prsindia.com](http://prsindia.com). Such policy changes enable the firms in optimising their labour costs. This may compromise the job security of the Indian labour force but provisions

for social security benefits even for the fixed term contractual employees and the proposed increase in the basic wage component to at least 50% of the total employee compensation which in turn will lead to an enhancement of the social security benefits for the labour force may compensate for the lack of job security . However, reforms have not yet been implemented across all the states and its impact will only be felt after its pan-India implementation.

### **Skill Deficiency: Impact and redressal**

Besides policy regime, quality of human resource has also been observed to be an important determinant of employment elasticity in Indian industry in the different empirical studies carried out over time. In line with the changing demand pattern, there has been a major shift in the orientation of Indian industry in course of the last few years . Sectors like IT, healthcare, food processing, waste management, artificial intelligence, semi-conductor manufacturing, drone manufacturing have emerged as the new growth sectors . There is a requirement of a sizeable customised workforce endowed with specialised skills and knowledge for these sectors. But the reality is totally different. In IT, India's flagship sector, despite the presence of a large pool of engineering graduates there is an acute shortage of personnel having expertise in the new age digital skills like AI, machine learning and data science. Employers are even finding that many of the graduates lack practical programming skills and experience of modern cloud platforms. In the semi-conductor sector there is a critical shortage of skilled workers needed for fabrication, design and testing processes. In Healthcare too, there is an acute shortage of doctors , paramedics and mental health professionals particularly in the rural and semi-urban areas with the doctor to population ratio being well below WHO's recommendation. To overcome such deficiencies there is an urgent need for training and skill development of the labour force for each of these specific areas. But there exists a huge gap. As per estimates of NSDC, only about 3.2% of the Indian workforce have undergone formal skill development training as per today's requirement . As a result , while there is a need for 103 million professionals with specialized skills in Indian industry today, only 74 million are available indicating a shortfall of 29 million skilled professionals. Consequently, the investors have realized that if they have to reskill and upskill the labour force in order to turn them into one which can

be readily absorbed in their technical ecosystem then they will have to bear huge money and time costs. This could be acting as a major impediment in the way of usage of labour in the production process with investors moving towards increased mechanization and automation of their production system . Actually, to meet India's skill deficiency there needs to be a re-orientation of the human resource development policy. Though the government has taken the first step in this direction by adopting the New Education Policy (NEP) which includes subjects like AI, Data Sciences ,Machine Learning , robotics as part of the curriculum with emphasis on compulsory apprenticeship and internship programs but considering the enormity of the task, government's efforts alone may not be enough, private sector also needs to be involved . By granting tax concessions or by making such activities part of their Corporate Social Responsibility (CSR), private sector must be motivated to contribute their technical expertise in the respective areas for training and upskilling of the workforce. This can complement government's efforts and lead to the development of dedicated human resource supply chain which can meet the need for job-ready workforce.

### **Perspective Issues and Policy**

**Climate Control Policy:** The preceding discussion highlights the present-day factors which could be responsible for India's labour market problems . But this may not be enough as there is a need for a futuristic perspective. Because there are factors which may not appear to be that important at present may have a significant impact on the productivity and efficiency of the Indian workforce in future. The Environmental factors are one such. Change in Climatic conditions resulting from global warming due to increasing carbon emissions could have severe ramifications for the Indian labour force. The Asia-Pacific region including India is likely to be responsible for half of the global carbon emission due to which India is likely to experience about 4.7C average rise in temperature, ADB(2024). Rising temperatures and other difficult climatic conditions may severely affect workforce's ability to work efficiently and productively . Besides, flooding of the coastal areas due to rise in the sea level could result in losses of billions of dollars of productive resources and capital assets and thereby may also adversely affect labour productivities. It has been estimated that adverse climatic conditions may lead to 11.6% decline

in India's labour productivity resulting in a 24.7% decline in its GDP by 2070, ADB(2024). To mitigate the impact of Climate change coordinated actions involving government and the private sector are vital. The government needs to draw up a definite road map and put in place a proper regulatory framework for achieving the prescribed carbon emission limits. Every effort must be made for adopting eco-friendly and clean technology solutions. For this emphasis should be on exploiting and harnessing of non-conventional energy replacing the use of fossil fuels and adoption of pollution control technology . The government should set up a time-bound schedule for such a technological change offering financial and technical support particularly to the small and medium scale industry so that they can meet the need for substantial investments required for adoption of clean technology solutions.

### Conclusion

It can thus be observed that the declining demand for labour in Indian industry could be responsible for the problems affecting the Indian labour force. The preceding discussion unveils the likely reasons behind the declining usage of labour in Indian industry and the plausible policy responses that may counter them and these are summarized below in Table-3. **MA**

**TABLE-3 – Summary of the causes of and plausible responses to declining labour demand**

<b>Factors affecting labour demand at present</b>	<b>Plausible Policy Responses</b>
Skill deficiency of Indian labour force	Re-orientation of the Human Resource Development Policy so that the labour force can be re-skilled and up-skilled making them suitable for ready absorption in today's emerging technical ecosystem.
Pro-labour orientation of the labour policy .	Re-designing the labour policy for ensuring a balance between the investors' demand for a need-based flexible labour hiring system and financial security of the labour force . This may optimize the labour hiring costs and lead to increased usage of labour in the production process.
<b>Factors that may affect labour demand in future</b>	<b>Plausible Policy Response</b>

Environmental factors like Climate Change resulting from Global Warming.	There has to be a definite road map and a proper regulatory framework for adoption of eco-friendly and clean technology solutions with emphasis on exploitation and harnessing of non-conventional energy replacing the use of fossil fuels. The government may have to offer financial and technical support to the small and medium scale industry in particular for adoption of clean technology solutions .
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