



Centre For A New South Asia

Economic Integration

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The Puzzle of Informal Labour in India

-Riyaa Puri

Over the past few years, India's GDP has been growing at approximately 7%, leading to a decline in poverty and unemployment (Jose, 2023). India has been predominantly characterised by informal employment, taking up more than 90% of the workforce (Srija et al, 2014). Even though there is significant growth in its agricultural and manufacturing sectors, India persistently faces the issue of labour market inequality due to the labour market being extremely fragmented, with abandoned laws for workers and a judicial system that takes years to address a single case. The growing inequality in the market is reflected in working conditions, income inequality and job opportunities that affect marginalised communities, women and the informal economy.

Understanding the Informal Labour Market

The informal labour market lacks formal recognition of any kind with minimal adherence to labour laws. It incorporates casual domestic workers, part-time workers and the self-employed. In a talk, Kunal Sen, Director of UNU WIDER, stated that income inequality in India will increase further, with the Gini coefficient, a measure of income disparity, increasing by 2030. This trend will be observed not only in India but also in other South Asian countries (UNU-WIDER, n.d.). Addressing this issue is one of India's key motives as it aligns with the 2030 Agenda for Sustainable Development, in particular Goal 10, which aims to reduce inequality in and within the countries globally.

In the talk by Kunal Sen, from The Job Ladder framework by Gary Fields, we understand that in developing countries like India, the nature of the labour market is multi-tiered, where formal jobs are most desired and aspired for. When we talk about the labour market, there is a hierarchy in informal work: lower-tier informal work and enterprises and upper-tier informal work. In India, the "job ladder" is narrow at the top and broad at the bottom which indicates a skewed distribution of better work opportunities. Zooming in on the lower-tier employment, there are no barriers to entry and these include casual labour and self-employed workers, whereas formal wage employment has a limited scope of employment and is extremely competitive.

Factors Leading to Inequality

Over the past three decades, daily wages, on average, have increased, and it has been observed that the rise in rural wages has overtaken the rise in urban wages (Jose, 2023). However, 94% of the informal labour population earns only Rs.10,000 as their monthly income, which, compared to the growth in the inflation rate of the economy, is low (*Drishti IAS*, n.d.). Furthermore, due to the government's demonetization act in 2016 and the introduction of GST in 2017, the informal economy has been completely disrupted. This implies that shocks that disproportionately affect informal workers, making their wages more variable, disbalancing their confidence, leading to lower job security and making them more vulnerable to payoffs (Jose, 2023).

There are many reasons as to why inequality in the informal labour market exists and why it is increasing rapidly. The first and foremost reason is the issue of seasonal unemployment that exists in the agricultural sector, simultaneously affecting the street vendors. Due to a lack of formal regulations, limited unionisation and weak bargaining power, they are prone to low wages which leads to income inequality and increased poverty. Seeking job opportunities with higher pay, there is a trend of sectoral shifts. Workers are moving out of the agricultural sector due to low productivity and continuous rioting because of the government's failure to meet their demands.

Another big issue is that of gender inequality. Most working women constitute the lower informal self-employed or the lowest strata of the informal wage employed (UNU-WIDER, n.d.). They are likely to contribute to family work or low-paying casual labour. Kunal Sen further mentions that according to Claudia Goldin's U-shaped employment curve, we can understand that there has not been a huge increase in women's participation in the labour force. However, there is a mild decline despite decreasing fertility rates which has reduced the amount of time women would spend taking care of children. Furthermore, household dynamics convey a similar story. Women spend ten times more time on household chores, which are understood to have no economic value, than men, limiting their ability to grow in formal employment. This requires job opportunities close to their homes, fostering a positive cycle in employment as more women enter the workforce.

Inequality also exists because of skill mismatches. There is a gap between what the market demands and the educational qualifications/outcomes. Consequently, many graduates are stuck in informal employment. Many times, they are in fields unrelated to what they wanted or what

they studied for, trapping them in low-paying jobs. A big reason for this is the limited supply of opportunities and the continuously growing population. At the same time, vocational training is limited, especially for rural workers who face barriers to accessing education due to factors such as caste and religion.

What can be done?

If the right policy measures are not taken, inequality will continue rising. The government should first focus on the provision of healthcare, pensions and insurance for informal workers. This can be done on platforms like e-Shram which will help the government monitor all the activities (Social Security Welfare Schemes | E-Shram, n.d.). Secondly, there could be more focus on demand-side and supply-side policies. Greater attention to demand-side policies would lead to an increase in the generation of high-tier job opportunities. Greater investment in manufacturing and value-added services will boost the economy. Education and skill development are to be focused on to align the labour force with market demands, specifically focusing on marginalised groups. The biggest step to reduce inequality would be formalizing the informal sector. Finally, to ensure better protection of the workforce, the government should assist SMEs (small and medium enterprises).

Conclusion

India's informal labour inequality is a multifaceted issue which requires systemic solutions. Enhancing the social security of people and investing in skill development are some steps that the government should take on an urgent basis to begin the journey of reducing inequality. Empowering women, supporting SMEs, and aligning policies with SDG 10 can transform the informal workforce into a driver of inclusive and sustainable growth.

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