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Growing Distress and a Falling Unemployment Rate

What is going on in the labour market?

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The Periodic Labour Force Survey for 2019-20 has thrown up some unusual and contradictory patterns in employment and unemployment. However, the trends in the labour market over three years of the PLFS from 2017-18 onwards are clear and cause for worry.

The pandemic has had a disastrous impact on lives and livelihoods. The national lockdown of March–May 2020 will be remembered for its devastating neglect of migrant workers and the unprecedented, and yet avoidable, humanitarian crisis. Several non-government surveys reported heightened distress in different parts of the country due to a loss of wages and employment, and an inadequate availability of food and other essentials during and after the lockdown.

The devastation caused by the pandemic follows the retrogression in economic growth in the late 2010s that has been attributed to domestic factors and policy induced shocks (Nagaraj, 2020). The impact of demonetisation in 2016 and the poor implementation of the Goods and Services Tax in 2017 added to the woes flowing from rising non-performing assets with banks and a fall in investment and exports.

The three annual Periodic Labour Force Surveys (PLFS) conducted so far track the changes in the labour market during the economic slowdown leading up to the pandemic and the subsequent lockdown. So with the release of [the third annual PLFS](#), covering the period July 2019 to June 2020,¹ we now have information from three rounds for an analysis of the labour market dynamics for July 2017–June 2020.

Estimates from the PLFS 2019–20 raise two related questions: What were the drivers of the sharp rise in the labour force participation rate that year? And, at a time when the economy was shrinking, in which sectors was new employment generated?

Changes in the labour force, workforce, and unemployment

We present a comparative analysis of the PLFS across rounds given that there was no change in the survey methodology.

The total labour force of an economy comprises workers and the unemployed. Key indicators to assess the labour market include the labour force participation rate (LFPR), which is the proportion of the population that is working or unemployed; the proportion of the working population measured by the worker-population ratio (WPR); and the unemployment rate (UR), which is the proportion of the labour force that is seeking but unable to find work. Two different approaches are used to estimate the LFPR, WPR and UR, the Usual Status and the Current Weekly Status (CWS). The Usual Status of a person is their main activity during the 365 days preceding the date of the survey. Usual Status estimates give a picture of the average situation over the reference period of the survey. The Current Weekly Status of the person is their activity during the seven days preceding the survey.

Reversing the decades-long trend, the overall Female Labour Force Participation Rate increased by 1.1 percentage point between 2017–18 and 2018–19 and by 4.2 percentage points between 2018–19 and 2019–20.

We compare estimates of the labour market dynamics from the PLFS with the GDP estimates, using the quarterly GDP data for the same period as the labour force surveys. We find that the annual GDP for July 2019–June 2020 declined by 3.4% over July 2018–June 2019, while in the same period, the UR fell from 5.8% to 4.8%; the WPR increased by 2.9 percentage points; and the overall LFPR increased by 2.6 percentage points.

In absolute terms,² 52.8 million people joined the labour force between 2017-18 and 2019–20, and 56.2 million people found employment and became part of the workforce (Table 1). While the labour and workforce rose in each successive year, the magnitude of the rise was much higher between 2018–19 and 2019–20 when the labour force increased by 40.3 million. Given the magnitude of the change, we focus on the data for 2018–19 and 2019–20.

To put the trends in the labour market in perspective, we present the labour force participation rates from 1977–78, from which year comparable estimates are available (Chart 1).

The rates of participation in the labour force of rural males, urban males, and urban females in 2019–20 were higher than in any year since 1977–78. That is, for these three categories, the proportion of people who were either working or seeking but unable to find work was the highest in over four decades. Despite this, the overall labour force participation rate in 2019–20 was lower than in the early 1990s (42.8 percent in 1993–94). This is due to the trends in the fourth category of the population: rural females.

The female labour force participation rate (FLFPR) was on a declining trend since the 1980s in rural areas. The extensive literature examining the low and declining FLFPR includes both demand and supply-side explanations. The explanations include the lack of employment opportunities, rise in landlessness, mechanisation of agricultural operations, the role of social norms, rise in household incomes, rise in the proportion of women enrolling for higher education, and the increasing burden of care work and social reproduction.

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It has also been pointed out that household surveys underestimate women’s work by excluding those performing unpaid domestic and subsistence activities from the labour and workforce. The rise in FLFPR between 1999–00 and 2004–05 was an exception to the broad trend and was largely explained as being driven by distress. It was argued that the deepening agrarian crisis and reduced real earnings of households forced women and the aged population into the labour market (Abraham, 2009).³

Reversing the decades-long trend, the overall FLFPR increased by 1.1 percentage point between 2017–18 and 2018–19 and by 4.2 percentage points between 2018–19 and 2019–20. Over 28 million women joined the labour force in 2019–20, which accounts for close to 70% of the total rise in the labour force that year. More women joined the labour force than men in both rural and urban areas.

There was also a sharp rise in the LFPR of males aged above 60 years in both rural and urban areas between 2018–19 and 2019–20 (Chart 2). Overall, the LFPR for people in the senior age group increased by 4 percentage points.

Changes in the composition of the workforce

The PLFS classifies workers into self-employed, regular wage/salaried workers and casual labourers. The self-employed includes own account workers (who run small enterprises alone or with help from family members but without hiring workers); unpaid family helpers; and employers (who hire workers for their enterprise).

The share of the self-employed in the workforce increased from 52.1% in 2018–19 to 53.5% in 2019–20. In absolute numbers, an additional 28.9 million people joined the workforce as self-employed in 2019–20, accounting for two-thirds of the total rise in the workforce by 43 million (Chart 3). During the same period, there was a marginal decline in the share of regular wage/salaried workers and of casual labourers. In absolute numbers, regular wage/salaried workers increased by 6.8 million and casual labourers increased by 7.3 million.

Of the 43 million people that joined the workforce in 2019–20, over 18 million were unpaid helpers in family enterprises. Unpaid family helpers assist full-time or part-time the family member that runs the enterprise, but do not receive payments for their services. Women comprised 57% of unpaid helpers in 2018–19, and this proportion increased further to 62% by 2019–20. Over half of the increase in the female workforce was as unpaid family helpers (Chart 3), hardly in the direction of improving gender balances in the workforce.

Changes in the sectoral distribution of the workforce

The share of agriculture in total employment rose from 42.5% in 2018–19 to 45.6% in 2019–20. That is, the number of people usually employed in the agricultural sector increased by 32 million in 2019–20 (Chart 4), reflecting a worrying rise in underemployment. Agriculture continues to be the sink for modern India, absorbing the workforce that is unable to find stable and decent jobs in manufacturing and services. The rise in the agricultural workforce may be temporary, but it reaffirms the failure of the economic regime to create sustainable livelihoods. After agriculture, the trade, hotels and restaurants sector saw the highest rise (9.8 million workers). This was driven by retail trade. Agriculture and trade, hotels and restaurants together accounted for 97.5% of the total increase in the workforce between 2018–19 and 2019–20.

Looking at the changes in the nature of employment, formal workers—those with a written job contract or any form of social security—comprised only around 11.6% of the workforce in 2018–19, and this declined marginally in 2019–20. Of the total increase of 43 million in the workforce between 2018–19 and 2019–20, 37.8 million were informal workers.

Falling wages

The unemployment rate according to the Usual Status fell between 2017–18 and 2019–20 (Table 1). This happened because though the LFPR increased during this period, the increase in WPR was even higher.

While the unemployment rate decreased according to the Usual Status, when the Current Weekly Status (CWS) is considered, it has remained the same over the three PLFS rounds – 8.8%. And because the size of the labour force increased, in absolute terms, the number of people unemployed by the weekly status approach increased by 3.5 million between 2018–19 and 2019–20. As per the weekly status then, over 46 million people were unemployed in 2019–20.

This fall in real wages [between 2018-19 and 2019-20], and the absence of adequate social security measures... may have forced millions to join the informal workforce.

A large section of the labour force is intermittently employed, finding agricultural work during peak seasons and MGNREGA work or other temporary jobs in other seasons, indulging in short-term rural-rural or rural-urban migration. For this reason, the unemployment rate (Usual Status) represents chronic unemployment, that is, unemployed for a good part of the past year. Even by this metric, over 26 million people were unemployed in 2019–20.

We [discuss](#) elsewhere that the published PLFS reports underestimate the decline in average earnings during the lockdown by excluding from its computations workers who reported zero earnings. Our revised calculations show that the real earnings of regular wage/salaried workers declined by 7.6% in April-June 2020 over the same quarter in 2019. The earnings of the self-employed fell by 26.4%, and the average daily wages for casual labour fell by 5.5%. Moreover, the real wages of the salaried and the self-employed were declining even in the months preceding the lockdown. This fall in real wages, and the absence of adequate social security measures to tide over the crisis during and after the lockdown, may have forced millions to join the informal workforce to add to family incomes.

The employment crisis

The Ministry of Labour and Employment informed the Lok Sabha [in a written reply](#) during the 2021 monsoon session that the unemployment rate for women fell from 5.1% in 2018–19 to 4.2% in 2019–20. It also linked the rise in the female labour force participation rate to several policy initiatives taken by the government. A deeper analysis of the PLFS tells us that the fall in the Usual Status unemployment rate is hardly a solace.

While the absolute number of the unemployed according to the CWS increased significantly, the average real wages declined sharply for a large majority of workers in 2019–20 (Chart 5). There was also a rise in the proportion of the elderly and women in the labour force. They may have done so in the hope of increasing family incomes during the period of distress. Unpaid family helpers represented the bulk of the addition to the workforce. The rise in the share of the informal workforce, and in particular the agricultural workforce, are likely to be further indicators of distress.

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Several suggestions to provide immediate relief to workers have been made. These include increasing the limit on the number of working days under MGNREGA, an urban job guarantee programme, cash transfers and universal food provisioning. It has also been argued that an economic recovery requires a substantial boost to demand through public spending. These suggestions have not received the attention that they deserve. Meanwhile, the rise in inflation has further eroded real incomes.

The employment crisis today is a result of the policy framework that assumes that labour market distress would magically disappear as the economy grows. The pandemic and the ensuing recession have shown that wishful thinking is not a substitute for concrete economic policies and job security measures that safeguard the interests of labour.

Footnotes:

- 1 The survey for April-June 2020 was conducted after the lockdown was lifted.
- 2 Absolute numbers are estimated by applying the relevant rates by sector and sex obtained from the PLFS data to **projected populations by the Technical Group on Population Projections as of July 2020**. The population is estimated for the mid-point of the reference period. For instance, for the survey year 2019-20, the reference period for usual status ranges from 1 July 2018 to 1 June 2020. The mid-point is taken to be June 2019. For the same survey year, the mid-point for weekly status estimates is taken to be January 2020.
- 3 Abraham, V. 2009. **Employment Growth in Rural India: Distress-Driven?** Economic & Political Weekly.