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Employment and unemployment in INDIA: A conundrum

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Abstract

This paper examines the dynamics of employment and unemployment in India, focusing on key issues such as youth unemployment, female labour force participation, and the government's claims of job creation. While the government's Economic Survey paints an optimistic picture, alternative sources like the Centre for Monitoring Indian Economy (CMIE) suggest a more concerning scenario. The rise in female labour force participation, driven by rural self-employment, is scrutinized, with findings showing that much of the increase is due to unpaid work, rather than formal employment. Government's reliance on the EPFO data for claiming the increased job opportunities are not taken for granted. Also, this paper critically investigates the new announced Government schemes such as Employment Linked Initiatives in the current employment scenario.

Keywords: *Unemployment, female labour force participation, EPFO, Employment Linked Initiatives.*

1. Introduction

In the run-up to the 2019 elections, the country witnessed an unusual event when the government's report on employment and unemployment was put in cold storage, despite having undergone scrutiny and receiving approval from the highest-level bodies, including the National Statistical Commission. After the report was leaked to the press, the government's own NITI Aayog presented a plethora of arguments criticizing the survey methodology and suggested that the report required further scrutiny and revision. The ostensible reason for this was that the report estimated the unemployment rate to be the highest in 45 years, contradicting the government's job creation claims. However, the report was released without any changes as soon as the general election results came in, ushering in a second term for the government. Since then, the government has cited the report without hesitation to support claims that the economy is recovering after the adverse impacts of demonetization and the subsequent pandemic.

The International Labour Organisation (ILO) and the Institute for Human Development (IHD) released the India Employment Report 2024, the third edition in the series, using data from the government's own surveys. This report analyzed the employment situation in great detail and highlighted the stark reality of youth unemployment. According to this report, the unemployment rate for those with secondary and higher levels of education was 18.4 percent in 2022, while for graduates, it was 29.1 percent. The report also noted that wages and earnings are stagnant or declining and that the quality of employment being generated is poor. The demand for jobs under MNREGA has consistently increased, while real wages have remained the same, indicating prevailing distress in the employment sector.

Meanwhile, the recent Economic Survey presents an optimistic view of the country's employment scenario, especially regarding youth and female participation. The Periodic Labour Force Survey (PLFS) is the source document for the government's claim that the unemployment rate is on a declining trend, while the Labour Force Participation Rate (LFPR) and workers per population are increasing. The government claims that the unemployment rate in usual status (yearly estimate) is 3.2 percent, and in the weekly status, it is 5.1 percent. The unemployment rate in daily status, according to PLFS, is 5.5 percent, while the Centre for Monitoring Indian Economy (CMIE) reports that the unemployment rate in daily status is 9.2 percent, which paints a more concerning picture. Internationally compliant definitions do not regard PLFS's employment definition, which includes unpaid household work as 'employment.' Since CMIE uses international definitions, it does not show a rise in LFPR/WPR. The LFPR in India for individuals aged 15 years and older was 55.2 percent in 2022, which was lower than the world average of 59.8 percent. We do not have the exact figure for the world average in 2023, but India's LFPR in 2022-23 remains lower than the world average in 2022.

What data say about the conundrum of the increase in the female labour force participation rate in India?

India's female labor force participation rate (FLFPR) has seen a significant decline, falling from 39.7% in 2004-05 to 22.9% in 2017-18. However, from 2017-18, it has risen again, reaching 34.1% in 2022-23. This growth, according to the Periodic Labour Force Survey (PLFS), is primarily driven by improvements in female labor force participation, particularly in rural areas. During the same period, the overall labor force participation rate (for those aged 15-59) grew from 51.5% to 58.3%, largely due to this rise in female participation.

While this trend appears positive, it may not fully capture real improvements in women's economic conditions. In earlier quinquennial Employment-Unemployment Surveys (EUS), women engaged in unpaid economic work often went uncounted, leading to lower reported proportions of female labor participation. The recent increase in FLFPR partly reflects better measurement practices in the PLFS, particularly in the first couple of survey rounds. However, this alone cannot account for the steady increase observed over the last six years.

It is unlikely that this recent rise in rural female labor force participation is due to a sudden surge in rural job opportunities, especially since there hasn't been a corresponding increase in male labor force participation in rural areas. Instead, the growth appears to stem from a shift from women's employment. The share of rural women engaged in self-employment has risen sharply from 55.9% in 2017-18 to 70.1% in 2022-23, compared to urban women. Self-employment spans various roles, from large-scale entrepreneurs to small farmers. Within this group, the proportion of unpaid family helpers grew from 33.1% to 38.4%, while the share of own-account workers also increased.

Importantly, the share of women in casual labor has dropped from 31.3% to 19.6%, while regular wage/salaried jobs have remained stagnant at around 10%. This suggests that the rise in female labor force participation is primarily due to an increase in unpaid helpers or women working in their own enterprises, rather than formal or paid employment.

The myth that EPFO data shows rising jobs

The findings of the ILO-IHD report based on publicly available official data bringing out the precarious nature of employment, in particular that for the youth and the educated are now countered with data from Employee Provident Fund Organisation (EPFO), National Pension Scheme and the ESI. However, this data released every month by the Statistics Ministry, titled payroll reporting is neither based on payroll reporting nor has it anything to do with employment generation. These are essentially number of subscriptions to these schemes and any increase or decrease can be easily attributed to administrative factors and has very little relation to new job creation.

The claim of new job creation is itself fallacious. The reasons are as follows:

First, a part of the increase in net enrolment comes from the enrolment of contract workers in those establishments where the EPF & MP Act 1952 becomes applicable. If you are an employer that employs 20 people or more, it is mandatory to register under EPF.All contractual employees of such establishments employed directly or through a contractor, or both, are required to be enrolled under the EPF & MP Act, 1952. This became mandatory following the judgement of the Hon'ble Supreme Court of India, in the matter of M/S. Pawan Hans Limited and Others. v. Aviation Karmachari Sanghatana and others. The judgement (January 17, 2020), under the Employees' Provident Funds and Miscellaneous Provisions Act, 1952 clarified that contractual employees, who draw wages/salary directly or indirectly, are entitled to the benefit of provident fund.

Now, over time, a part of the contract or casual workforce might be extended the benefit of an EPFO subscription. This will be seen as fresh new enrolment in EPFO data but they were already employed. In that sense, their engagement is getting formalized. Further, new establishments might be added to EPFO coverage as the number of employee engagement reaches the 20 threshold. At best, this can be seen as formalization of employment rather than new job creation.

Payroll data is not an employee list by any means, nor is it a stand-in for the creation of jobs. Within the EPFO data architecture, payroll data represents a particular type of data reorganisation. EPFO began disclosing payroll information for the period beginning in September 2017 in April 2018. The net monthly payroll is calculated using the following methods: counting members who join EPFO for the first time using an Aadhaar-validated Universal Account Number (UAN), counting members who leave the organisation but re-join, and counting members who leave the organisation but re-join. Because of this, it is challenging to fully credit the net rise in enrolment to the creation of new jobs. Reorganising within the current beneficiaries and include current contract workers are contributing to the increase in numbers.

Another matter, recent improvements in net payroll is because of the registration simplicity. Online registration is now available, cost-free, and hassle-free. There is no need to go to the EPFO office. New registrations have benefited from this. Additionally, EPFO has made EPF accounts portable, meaning that the enrolment number stays the same even if the employer changes. Even when they change jobs, EPFO subscribers are more often choosing to move money from their old PF account to their new one rather than filing claims for a final payout. This can be linked to the different e-initiatives that EPFO has implemented to ensure smooth service delivery. Once more, this is unrelated to the creation of new jobs.

Lastly, since the regular employees increase to 20 or more, the full employee count falls under the EPFO's new payroll data. Companies with less than 20 workers were not covered by the EPF Act. Let's say a business employs 19 people; EPF will not cover this. Now that a regular employee has joined, the business is subject to EPF regulations. In EPFO payroll statistics, there would now be 20 new registrations, although there would only be one more job. Projecting a full rise in fresh enrolment as new employment is an exaggeration.

The employment linked initiatives

The parallel to the production-linked initiatives started in 2020, the government has introduced Employment Linked Initiatives as part of the budget for 2024-25. There are five major schemes, with three schemes intended for new job creation and the other schemes aligned with skill development. The Economic Survey identifies a need for 78.51 lakh jobs to be created in the non-farm sector.

Scheme A: Targeting first-time employees in the formal sector registered with EPFO, this scheme offers a one-month wage (up to Rs. 15,000) in three installments.

Scheme B: Focusing on job creation in manufacturing, this scheme incentivizes both employees and employers for the additional employment of first-time employees, offering benefits based on their EPFO contributions during the first four years of employment. Employees with salaries up to Rs. 1 lakh will be eligible.

Scheme C: Providing support to employers by reimbursing Rs. 3,000 per month for two years towards their EPFO contribution for each additional employee with a salary of up to Rs. 1 lakh per month.

The first two schemes involve direct benefit transfers to the employee, while the third scheme directly subsidizes the employer. However, all three schemes are intended to subsidize employers to hire new workers. The EPFO contributions, which are supposed to be part of the salary, will eventually lead to salary negotiations between employees and employers, potentially resulting in lower salaries paid by employers.

Will it generate new employment? The answer is no, because new employment generation is identified by EPFO registration. There are employees in the formal sector or regular/employed workers who have not been registered with EPFO. If a company enlists any unlisted worker, they will also benefit. However, by enlisting in the EPFO, there will be a sense of social security, which is also the purpose of the EPFO itself. So, there is some defence for these initiatives.

But the problem lies elsewhere. The objective or rationale behind this initiative is that the marginal cost of adding an employee is the constraint against new job creation, whether it be training costs, expertise, or labour productivity. But is that the real issue regarding job creation? It is structural.

There is inefficient demand in the economy. According to the NSSO Household Expenditure Survey, the monthly per capita consumption expenditure is Rs. 3,773 in rural India and Rs. 6,459 in urban India. Without considerable demand, production cannot take place, and there is a longstanding debate on the lack of private investment in the economy. From 2011-12 onwards, however, private investment began to drop and hit a low of 19.6% of GDP in 2020-21. The average real monthly wage of a regular wage worker has dipped to Rs. 10,925 in 2022 from Rs. 12,100 in 2012, as calculated by the ILO using official government data.

The most harmful aspect is that companies must recruit new employees every year to avail of this scheme. This means that the workers recruited in the first year will essentially be on fixed-term contracts and thrown out after their term ends, accentuating retrenchment to avail of government subsidies.

In the past few years, the government has devised incentive schemes which encourage formalization of the informal. The Indian labour market is predominantly informal. About 90 percent of the labour force is informal. Given this reality, accounting for new job creation using EPFO is a hard task - and in future such claims should be avoided by government.

Other schemes:

Scheme D: A new centrally sponsored scheme announced for skilling 20 lakh youth over five years in collaboration with state governments and industry, along with upgrading 1,000 Industrial Training Institutes to align with industry skill needs.

Scheme E: Offering internship opportunities to one crore youth in 500 top companies over the next five years, with an internship allowance of Rs. 5,000 per month and one-time assistance of Rs. 6,000, providing exposure to real-life business and professional environments.

The problem with Scheme D is the issue of fiscal federalism and the conditionalities as fiscal burdens due to the nature of centrally sponsored schemes. Regarding the internship scheme, there is no clarity on the 500 top firms. The government will bear the burden of the monthly stipend of Rs. 5,000 and one-time assistance of Rs. 6,000. The rest of the training cost can be taken from the company's CSR funds. In the name of skilling, companies can easily divert CSR funds towards further production.

As per the ILO India Employment report the under employment in our country is 7.5 percent. When there is underemployment then the problem not only lies in the skill. It is structural. Without addressing the structural problems mentioned above, this will create a more skilled reserve army of labour, thereby increasing the negotiation power of companies and causing real wages and effective demand to decline. Unfortunately, the Economic survey nowhere mentions the word underemployment. The ELI and internship schemes will enhance production-linked profit by increasing the unpaid labour component and providing free labour at the disposal of corporations. Employment in India is dominated by poor-quality employment in the informal sector and informal employment.

Employment is predominantly self-employment and casual employment. Nearly 82 percent of the workforce is engaged in the informal sector, and nearly 90 percent is informally employed. Due to the nature of employment growth since 2019, the share of total employment in the informal sector and/or informal employment has increased. Even in the organized sector, more than 60 percent of employment is provided by firms with fewer than 500 employees. For job creation, there needs to be more focus on local infrastructure. Since local infrastructure is the responsibility of the state government, the issue of fiscal federalism and the uneven distribution of central resources to state governments arises.

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