COVID-19 and the State of India’s Labour Market

Radhicka Kapoor
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Abstract

This paper attempts to understand the effect of the COVID-19 shock on the labour market in India by examining the vulnerabilities of the workforce using data from the Periodic Labour Force Survey (2018-19). With simply 24% of the workforce engaged in regular wage salaried jobs offering a steady flow of income and a mere 2.2% in regular salaried jobs with a written job contract for a period of more than three years and access to all social security benefits, a disproportionately large share of the workforce is likely to face job and income losses as a consequence of the dual shock of the pandemic and lockdown. Further, we expect to see widening disparity in the labour market between the relatively less educated workers who predominantly work in informal work arrangements in sectors such as agriculture, manufacturing, construction, trade, hotels & restaurants which have been most vulnerable to the first wave effects of the pandemic and lockdown, on the one hand, and the small proportion of better educated who have regular formal jobs in sectors that are more amenable to remote work. While direct income support is the principal means of providing immediate support to the vulnerable and displaced, there is also a need to provide wage support to enterprises to prevent further job losses. Given that the COVID-19 crisis comes on the back of pre-existing high unemployment and underemployment, there is a need to put in place a clear and comprehensive plan of productive employment generation. Creating well paying good jobs is not just an end in itself but is also a means of boosting aggregate demand and enabling economic recovery. The strengthening and expansion of employment guarantee programmes and adoption of an industrial policy which focuses on construction and labour intensive manufacturing are important elements of such a strategy. Concomitantly, there is a need to extend social security to informal workers to make labour markets more secure.

**Key words:** Employment, Unemployment, Working conditions, Informal labour markets

**JEL classification:** J21, J46, J84, J65, J81, J89

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Acknowledgment

This policy paper is part of a research project undertaken at ICRIER and supported by the Ford Foundation to generate and disseminate information on the quantity and quality of employment in India. I am extremely grateful to Prof Ajit Ghose, Dr Nomaan Majid and Srinivasan Iyer for their valuable comments and suggestions. I would like to express my sincere thanks to Abhishek Kumar for his help with the Periodic Labour Force Survey data.
COVID-19 and the State of India’s Labour Market

Radhicka Kapoor

1. Introduction

The widespread outbreak of the COVID-19 virus poses an unprecedented challenge globally. It has not only created a public health crisis but also an economic crisis as countries across the world have adopted containment policies, in particular physical distancing measures, to reduce COVID-19 transmissions. The cessation of economic activity that has followed has presented an unexampled shock to labour markets and levels of unemployment have surged. In India, estimates from the Centre for Monitoring the Indian Economy (CMIE), a private organization, which provides high frequency employment-unemployment statistics based on a large household survey shows that unemployment rates in the months of April and May stood at over 23%, a three fold increase from a rate of 7% at the same time last year. This may well be just the tip of the iceberg as India’s dualistic labour markets where a disproportionately large proportion of workforce is engaged in informal work arrangements, are woefully ill-equipped to cope with a shock of this magnitude.

This paper attempts to understand the effect of the pandemic and containment measures on labour markets by examining the vulnerability of India’s workforce in terms of the nature of work arrangements (i.e. status in employment), security of tenure and the sectoral composition of employment. Such an exercise is meaningful as the harsh impacts of COVID-19 are not evenly distributed across the workforce. They are likely to be particularly severe for workers in more precarious forms of employment that offer little or no security of tenure, no written contracts or basic social protection. However, job losses are not going to be restricted simply to casual workers, who account for a quarter of the workforce (Periodic Labour Force Survey, 2018-19). Even amongst Regular Wage Salaried (RWS) workers, who account for 24% of total employment, there are several who had no written job contracts and were not eligible for any social security benefits. This makes them just as vulnerable as casual workers. In 2018-19, such workers accounted for 45.9% of all RWS workers. In these challenging times, given the sharp decline in aggregate demand, firms may lay off many regular formal workers, except perhaps those who have a long term relationship with firms and have acquired firm specific skills. The share of such workers appears to be small, with a little over 2% of the workforce being in RWS jobs with written contracts for a period of more than three years and offering all social security benefits. Further, the self-employed who are predominantly own account workers and unpaid family workers are likely to witness a significant loss of livelihoods. In the absence of a financial cushion to deal with the virus and lockdown, they are likely to be pushed into a dire situation.

An analysis of the sectoral composition of the workforce reiterates this high degree of vulnerability. Sectors such as agriculture, manufacturing, construction, trade, hotels & restaurants which collectively employ nearly 80% of India’s workforce and 85% of those with secondary education and below have been the most vulnerable to the first wave effects of the pandemic and lockdown. What is more, these sectors are dominated by informal work
arrangements and unable to move work online. Thus, we can expect to see widening inequality in the labour market between the large numbers of poor and less educated who do not have stable employment arrangements or social protection and work in hardest hit sectors, on the one hand, and the small proportion of better educated who have regular formal jobs and work in sectors that are more amenable to remote work, on the other hand.

The first line of action in dealing with these challenges requires providing immediate support through direct income support and in-kind assistance to poor and displaced workers who have been disproportionately impacted by the COVID-19 crisis. Such support needs to be combined with a jobs preservation scheme for formal enterprises to protect low wage workers. Concomitantly, efforts need to be made to re-allocate displaced workers to those sectors of the economy which are witnessing a surge in demand and facing labour shortages. As we transition through the lockdown period, these two steps will be helpful in minimizing further jobs losses and in providing a cushion to some displaced workers. However, direct income support would still remain the principal means of providing immediate relief to a disproportionately large share of the workforce in informal enterprises and informal workers in formal enterprises. Employment guarantee schemes too, will play a critical role in providing support to those rendered unemployed. This will require not just strengthening and effective implementation of existing rural employment guarantee schemes, but also establishment of an urban employment guarantee scheme. The need for an urban safety net has never been more acute and apparent.

Additionally, it is important to bear in mind that the COVID-19 crisis in India has come in the backdrop of pre-existing high and rising open unemployment and this has further accentuated the jobs challenge. In the period between 2011-12 and 2017-18, absolute employment in India (by the usual principal and subsidiary status) declined by 6.6 million\(^1\). The narrative of India’s jobless growth turned into one of ‘job-loss growth’ during this period as employment levels declined despite positive output growth (Kannan and Raveendran, 2019). Recent GDP estimates suggest that growth of GDP too is decelerating sharply. Between 2016-17 and 2019-20, GDP growth halved from 8.3% to 4.2% and is expected to turn negative in 2020-21. In this scenario, reviving economic growth will be a top priority for policy makers. However, reviving growth alone will not be enough, the recovery needs to be job rich and employment intensive. Adopting an industrial policy with a greater focus on sectors such as construction and labour intensive manufacturing will not only generate employment for large masses of India’s unskilled/low skilled and semi-skilled workforce but also help strengthen domestic demand. Furthermore, as the COVID-19 crisis brings to the

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\(^1\) Employment unemployment surveys in India do not provide absolute levels of employment, unemployment and labour force. They lay out labour force participations and worker population rates separately for rural male, rural female, urban male and urban female. These rates need to be multiplied with the projected population estimates based on figures obtained from the census and not the population estimates obtained from the household survey. Absolute estimates of employment could vary depending on how different researchers arrive at projected population estimates. The extent of decline in total employment between 2011-12 and 2017-18 has been estimated at 15.5 million by Himanshu (2019), 6.1 million by Kannan and Raveendran (2019) and 9 million by Mehrotra and Parida (2019).
fore the precarities of those trapped in informal work arrangements, there is an urgent need to extend social protection to informal workers to make labour markets more secure.

2. Vulnerability of India’s Workforce

Examining the vulnerability of India’s workforce requires us to understand the structure of the country’s workforce. We attempt to do so through two lenses using the unit level data from the Periodic Labour Force Survey (PLFS, 2018-19). One, the nature of employment arrangements and whether workers in different employment arrangements have access to social security and/or written contracts. Two, given the asymmetric effect of COVID-19 on different sectors, we examine the vulnerability of the workforce by studying the sectoral composition of employment.

2.1 Nature of Employment Arrangements

It is a well established fact that 90% of India’s workforce is engaged in informal work arrangements. According to the PLFS (2018-19), approximately 75% of the workforce was engaged in self employment and casual wage employment and thus outside the ambit of standard employer-employee relationships which offer workers social security benefits, security of tenure or continuity of income. Additionally, most of these workers were engaged in activities that do not give them the luxury of working from home. On the other hand, about one fourth of the workforce was employed as RWS workers i.e. they receive a salary on a regular basis and not on the basis of daily or periodic renewal of work contract. Although they have some degree of income stability, which makes them better off than casual workers, they too do not always have access to social security benefits or secure job contracts. Data from the PLFS shows that in 2018-19, the proportion of RWS workers who had access to at least one social security benefit (Provident Fund / pension, gratuity, health care & maternity benefits) and therefore a minimal degree of social protection was a mere 40.6%. These workers referred to as regular formal workers accounted for a mere 9.6% of the total workforce. It needs to be noted that the definition of formal employment based on having access to just one social security benefit is a fairly relaxed one. If we move to a more stringent criteria and examine the share of RWS workers who have access to all available forms of social security cover, the proportion stood at 17.7% . This in turns means that a mere 4.2% of the workforce had jobs which offered them the maximum possible degree of protection and would therefore fit the criteria of what is often described as a ‘good job’ or ‘decent work’.2

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2 It is worth noting that even in the National Sample Survey’s employment unemployment surveys conducted in 2004-05 and 2011-12 and the PLFS of 2017-18, the share of the workforce which had jobs which offered the maximum possible degree of protection was around 3.7% of total workforce. This points to the fact that there has hardly been any improvement in the quality of employment over the time period during which India witnessed spectacular economic growth.
Table 1: Distribution of Workers by Employment Status in 2018-19 (Age 15+)

<table>
<thead>
<tr>
<th>UPSS Workers Status</th>
<th>Male</th>
<th>Female</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Self Employed</strong></td>
<td>51.62</td>
<td>53.34</td>
<td>52.04</td>
</tr>
<tr>
<td>Own Account Workers</td>
<td>41.32</td>
<td>21.90</td>
<td>36.58</td>
</tr>
<tr>
<td>Employers</td>
<td>2.76</td>
<td>0.67</td>
<td>2.25</td>
</tr>
<tr>
<td>Unpaid Family Workers</td>
<td>7.55</td>
<td>30.77</td>
<td>13.21</td>
</tr>
<tr>
<td><strong>Regular Wage Salaried (RWS) Workers</strong></td>
<td>24.41</td>
<td>21.91</td>
<td>23.80</td>
</tr>
<tr>
<td>RWS workers having at least one social security benefit (Regular Formal)</td>
<td>10.08</td>
<td>8.39</td>
<td>9.66</td>
</tr>
<tr>
<td>RWS workers eligible for all social security benefits (PF/pension, gratuity, health care &amp; maternity benefits)</td>
<td>4.41</td>
<td>3.68</td>
<td>4.23</td>
</tr>
<tr>
<td>RWS workers eligible for all social security benefits and having a written job contracts of more than 3 years</td>
<td>2.33</td>
<td>1.84</td>
<td>2.21</td>
</tr>
<tr>
<td>RWS workers not eligible for any social security benefit (Regular Informal)</td>
<td>14.33</td>
<td>13.52</td>
<td>14.13</td>
</tr>
<tr>
<td><strong>Casual Workers</strong></td>
<td>23.97</td>
<td>24.74</td>
<td>24.16</td>
</tr>
<tr>
<td>Casual Public Works</td>
<td>0.25</td>
<td>2.73</td>
<td>0.86</td>
</tr>
<tr>
<td>Casual Other Works</td>
<td>23.71</td>
<td>22.01</td>
<td>23.30</td>
</tr>
</tbody>
</table>

Source: PLFS unit data (2018-19)

In addition to access to social security benefits, another parameter that enables us to understand the vulnerability of RWS workers is the degree of job security their contract offers. And here too, the trends are disappointing. In 2018-19, the share of RWS workers who had no job contract was as high as 68.8%. Although, this was a slight improvement from the share of 70.2% in 2017-18, the rising incidence of work with no written contracts is apparent from the fact that the shares of RWS workers with no written contracts was lower at 64.7% in 2011-12 and 57.0% in 2004-05. With no written contracts, RWS workers can be laid off just as easily as casual workers. At the other end of the spectrum, those RWS workers who had written job contracts for a period of more than three years and therefore some assurance of retaining their job during a period of crisis has declined steadily from 34.3% (in 2004-05) to 28.2% (in 2011-12) to 21.1% in 2018-19. These trends suggest that even RWS employment is increasingly being characterized by lack of security of tenure.

Further, we collectively examine employment arrangements by the degree of social security benefits they offer and the security of tenure (Table 2). Here we find that amongst those who had no written job contracts, 66.7% had access to no social security benefits. On the other hand, amongst those who had written contracts of the more than 3 years, 44.1% were eligible for all available social security benefits. This amounted to a mere 2.2% of the workforce. Arguably, such workers who have long term relationship with the firm and are likely to have acquired firm specific skills, have a lower probability of being laid off compared to other workers. That the percentage of such jobs is low and has fluctuated between 2% and 3% of total employment over the last few employment-unemployment surveys (2004-05, 2011-12 and 2017-18) reiterates that job security is a privilege for a limited few in India. The above

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3 The corresponding share for 2017-18 was 21.0%

4 Majid (2020) finds that the quality of regular formal jobs both in terms of protection and contract duration has been deteriorating since 2004-05. Thus, the best form of employment in India has been ‘hollowing out’.
statistics also suggest that the oft-cited statistic of 90% of India’s workforce being in informal employment underestimates the true extent of vulnerability of the workforce as it is based on a fairly relaxed definition of what comprises a formal job.

Table 2: Distribution of Regular Wage Salaried Workers by Type of Contract and Access to Social Security Benefits (2018-19)

<table>
<thead>
<tr>
<th>Eligibility of Social Security Benefits</th>
<th>No written job contract</th>
<th>Written job contract: for 1 year or less</th>
<th>Written job contract: more than 1 year to 3 years</th>
<th>Written job contract: more than 3 years</th>
<th>Missing/not applicable</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>eligible for: only PF/ pension (i.e., GPF, CPF, PPF, pension, etc.)</td>
<td>7.36</td>
<td>14.43</td>
<td>21.17</td>
<td>20.92</td>
<td>0.00</td>
<td>10.96</td>
</tr>
<tr>
<td>only gratuity</td>
<td>0.64</td>
<td>1.31</td>
<td>0.51</td>
<td>0.65</td>
<td>0.00</td>
<td>0.66</td>
</tr>
<tr>
<td>only health care &amp; maternity benefits</td>
<td>0.54</td>
<td>2.41</td>
<td>1.66</td>
<td>1.52</td>
<td>0.00</td>
<td>0.87</td>
</tr>
<tr>
<td>only PF/ pension and gratuity</td>
<td>3.13</td>
<td>5.89</td>
<td>5.99</td>
<td>4.88</td>
<td>0.00</td>
<td>3.69</td>
</tr>
<tr>
<td>only PF/ pension and health care &amp; maternity benefits</td>
<td>2.99</td>
<td>10.99</td>
<td>14.95</td>
<td>10.81</td>
<td>0.00</td>
<td>5.42</td>
</tr>
<tr>
<td>only gratuity and health care &amp; maternity benefits</td>
<td>0.87</td>
<td>2.61</td>
<td>2.57</td>
<td>1.97</td>
<td>0.00</td>
<td>1.23</td>
</tr>
<tr>
<td>PF/ pension, gratuity, health care &amp; maternity benefits</td>
<td>10.25</td>
<td>11.55</td>
<td>23.22</td>
<td>44.07</td>
<td>0.00</td>
<td>17.78</td>
</tr>
<tr>
<td>eligible for atleast one social security benefits</td>
<td>25.77</td>
<td>49.19</td>
<td>70.06</td>
<td>84.82</td>
<td>0.00</td>
<td>40.61</td>
</tr>
<tr>
<td>not eligible for any of above social security benefits</td>
<td>66.70</td>
<td>44.13</td>
<td>26.98</td>
<td>12.58</td>
<td>0.00</td>
<td>51.70</td>
</tr>
<tr>
<td>not known</td>
<td>7.53</td>
<td>6.67</td>
<td>2.96</td>
<td>2.60</td>
<td>0.00</td>
<td>6.16</td>
</tr>
<tr>
<td>missing</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>100.00</td>
<td>1.54</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Distribution of all RWS workers by type of contract</td>
<td>68.88</td>
<td>4.70</td>
<td>3.81</td>
<td>21.08</td>
<td>1.54</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: PLFS unit data (2018-19)

Given the extent of precarity and lack of security of tenure across work arrangements, it is unsurprising that the period during the national lockdown would have witnessed substantial job losses. These losses would be restricted not just to casual workers but also RWS workers who have little or no security of tenure. It is therefore unsurprising that the Consumer
Pyramids Household Survey (CPHS) of CMIE estimated job losses of 122 million in April 2020 compared to the average employment figure of 404 million during 2019-20. While small traders, hawkers and daily wage earning labourers accounted for most of this loss (90 million), the count of salaried employees too fell during this period by 18 million\(^5\). Additionally, a survey conducted by Azim Premji University to examine the impact of COVID-19 lockdown (henceforth, APU survey) found that amongst those who reported to be working in February 2020, 66\% reported they lost employment during the lockdown\(^6\).

Not only is an overwhelmingly large share of the workforce vulnerable due to the nature of their employment arrangement, but also due to their low levels of earnings which give them little or no financial cushion to cope with the lockdown and unemployment. Data from the PLFS shows that 42.2 \% of RWS workers earned below ₹9750 per month (or ₹375 per day), an amount recommended as a national minimum wage by an Expert Committee appointed by the Government of India (January 2019)\(^7\). On the other hand, the share of RWS workers who earned ₹15000 and above was 37.5\%\(^8\). For casual workers, the share of those earning below ₹375 a day was even higher at 92.5\%. Their financial vulnerability is exacerbated by the fact that they are unlikely to get work on every day of the month, and therefore not likely to earn a bare minimum amount for the month. A sudden loss of income for those who have such low levels of earnings and often do not earn even a minimum wage is likely to be devastating\(^9\). The self employed too do not have the financial wherewithal to survive a shock of such magnitude with 58\% reporting monthly earning below ₹ 9750 in 2018-19. Although, the reliability of data on gross earnings of self-employed cannot be guaranteed as there may be instances of under-reporting, it is not unreasonable to assume that their earnings are low given that over 95\% of self-employed are own account workers or unpaid family workers. The latter, in particular, draw from earnings of household enterprises and as earnings drop during a crisis, the pool of household resources dwindles pushing many self employed into margins of subsistence. Findings from the APU survey (2020) also point to significant loss of

\(^5\) 18 million business persons are also estimated to have lost employment in April 2020.

\(^6\) Azim Premji University, in collaboration with ten Civil Society Organisations, has conducted a phone survey of 4000 workers across 12 states of India to assess the impact of the COVID19 lockdown on employment, livelihoods, and access to government relief schemes. The data reported was collected between 13th April, 2020 and 20th May, 2020 at different times in various states. 


\(^7\) The Report of the Expert Committee (https://labour.gov.in/whatsnew/report-expert-committee-determination-methodology-fixation-national-minimum-wagewages) set the single value of the National Minimum Wage (NMW) for India at ₹ 375 per day (or ₹ 9,750 per month) as of July 2018, irrespective of sectors, skills, occupations and rural-urban locations. It also introduced an additional house rent allowance (city compensatory allowance), averaging up to ₹ 55 per day i.e., ₹ 1,430 per month for urban workers over and above the NMW. It also established the NMW for five different regions with diverse socio-economic and labour market situations, ranging from a low of ₹ 342 per day (or ₹ 8,892 per month) in Region I to a high of ₹ 447 per day (₹ 11,622 per month) in Region IV.

\(^8\) In 2019, the Delhi government announced an enhanced minimum wages for unskilled workers at Rs 14,842 per month, for semi-skilled workers at Rs 16,341 per month and for skilled workers at Rs 17,991 per month. This is amongst the highest minimum wages given by a state.

\(^9\) It is worth noting that 44\% of casual workers earned less than even Rs 178 a day, a national minimum wage announced by Ministry of Labour in 2019. The recommendations of national and region wise minimum wages of the above-mentioned Expert Committee have not been accepted by the government.
earnings for households. Earnings for self-employed workers (non-agriculture) declined by 82% and 89% in urban and rural India respectively (APU survey). In a separate study, Bertrand, Krishnan and Schofield (2020) analyzed data collected by CMIE as part of its CPHS and found that 84% of households have reported a decline in income since the lockdown\(^{10}\). What is more, only 66% of households reported having the resources to go on for more than another week before facing distress. The financial inability of households to cope with the ongoing economic distress is also evident from the findings of the APU survey. The share of households without enough money to buy even a week's worth of essentials stood at 64% in urban areas and 35% in rural areas. In this backdrop it is unsurprising that ILO (2020) estimates that in India about 400 million workers in the informal economy are at risk of falling deeper into poverty.\(^{11}\)

### 2.2 Sectoral Composition of the Workforce

While economic activity has halted across almost all sectors as a consequence of the COVID-19 crisis, some sectors have been more severely impacted than others. ILO(2020) has classified sectors on the basis of their susceptibility to the ongoing crisis (Table 3 reports this classification). Outside of the agricultural sector, which accounts for the largest share of total employment (42.4%), three key sectors-manufacturing, construction and trade, hotels and restaurants (each of which account for 12% of total employment) have borne a significant brunt of the COVID-19 shock.

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\(^{10}\) CPHS is a panel survey that usually surveys approximately 175,000 households across India every four months. The survey has continued to run through the lockdown with roughly 45 percent of its usual sample and two additional questions were posed to all surveyed respondents in the CPHS between April 18, 2020 and April 30, 2020. One, has the lockdown caused a fall in household income? And two for how long can your household continue without borrowing or getting any help in cash or kind from anyone?

\(^{11}\) Recent estimates from the World Bank suggest that the COVID-19 will push 12 million people in India into extreme poverty i.e. those living on less than $1.90 per day (https://blogs.worldbank.org/opendata/impact-covid-19-coronavirus-global-poverty-why-sub-saharan-africa-might-be-region-hardest). Even before the outbreak of the pandemic, poverty may have started rising in India as findings of the Consumer Expenditure Survey (2017-18) leaked by the Business Standard (2019) suggest. Real consumption expenditure declined by 10% per annum in rural areas and increased marginally by 2% per annum in urban areas. There was an overall decline of around 4% per annum for the country as a whole.
### Table 3: Sectoral breakdown of Employment by Employment Status (2018-19)

<table>
<thead>
<tr>
<th>ILO classification of risk to output</th>
<th>Sectors</th>
<th>Share of employment in total employment</th>
<th>Regular Formal</th>
<th>Regular Informal</th>
<th>Self Employed</th>
<th>Casual Workers</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low to medium</td>
<td>Agriculture</td>
<td>42.43</td>
<td>0.08</td>
<td>1.12</td>
<td>74.13</td>
<td>24.67</td>
<td>100</td>
</tr>
<tr>
<td>Medium</td>
<td>Mining &amp; Quarrying</td>
<td>0.42</td>
<td>28.56</td>
<td>23.66</td>
<td>9.25</td>
<td>38.52</td>
<td>100</td>
</tr>
<tr>
<td>High</td>
<td>Manufacturing</td>
<td>12.03</td>
<td>16.49</td>
<td>27.17</td>
<td>42.95</td>
<td>13.38</td>
<td>100</td>
</tr>
<tr>
<td>Low</td>
<td>Electricity, Gas &amp; Water supply</td>
<td>0.56</td>
<td>45.27</td>
<td>31.51</td>
<td>19.44</td>
<td>3.78</td>
<td>100</td>
</tr>
<tr>
<td>Medium</td>
<td>Construction</td>
<td>12.14</td>
<td>1.60</td>
<td>3.88</td>
<td>10.83</td>
<td>83.68</td>
<td>100</td>
</tr>
<tr>
<td>High</td>
<td>Trade, Hotel &amp; Restaurants</td>
<td>12.63</td>
<td>4.69</td>
<td>23.02</td>
<td>67.72</td>
<td>4.57</td>
<td>100</td>
</tr>
<tr>
<td>Medium-high</td>
<td>Transport, Storage &amp; Communication</td>
<td>5.95</td>
<td>20.37</td>
<td>29.76</td>
<td>38.39</td>
<td>11.47</td>
<td>100</td>
</tr>
<tr>
<td>Medium-high</td>
<td>Finance, Business, Real Estate</td>
<td>3.37</td>
<td>41.53</td>
<td>26.55</td>
<td>30.08</td>
<td>1.85</td>
<td>100</td>
</tr>
<tr>
<td>Low</td>
<td>Public Administration, Health, education</td>
<td>10.48</td>
<td>36.98</td>
<td>38.82</td>
<td>20.15</td>
<td>4.04</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>100</td>
<td>9.66</td>
<td>14.13</td>
<td>52.04</td>
<td>24.16</td>
<td></td>
</tr>
</tbody>
</table>

*Source: PLFS unit data (2018-19)*

To begin with, we look at the agricultural sector. Although the ILO’s framework places this sector in the low to medium risk category with respect to COVID-19, there are few issues that need to be highlighted in the Indian context. First, the timing of the lockdown coincided with the harvest season, when demand for labour is at its peak for harvesting and post-harvesting operations. The mobility restrictions at the time of harvest created shortages of farm labour to perform these operations\(^\text{12}\). Additionally, due to transportation bottlenecks, farmers faced difficulties getting their produce to the market for sale. This has been particularly challenging for cultivators of perishable produce who had to destroy their crop in certain instances\(^\text{13}\). In other instances, farmers who were able to sell their crop did not receive the desired price for their produce. Results from the APU survey (2020) suggest that 85% of farmers in rural India were unable to sell their produce at full prices. As a consequence of all these factors, farmers’ incomes are likely to have been impacted severely and they will struggle to recover the costs they have incurred over the last few months in the produce of the rabi crop. These shocks to their income are likely to lead to high levels of indebtedness.

\(^\text{12}\) It needs to be noted that the western states of Maharashtra, Madhya Pradesh, Gujarat and Rajasthan had finished harvesting before the lockdown was announced as the crop is harvested earlier in these states.

\(^\text{13}\) Forest dependent communities too have been severely impacted as their products are seasonal in nature and their earnings during the month of March to June that are critical for survival for the following months. [https://www.thehindu.com/news/national/other-states/lockdown-halts-harvesting-season-in-forests/article31253235.ece](https://www.thehindu.com/news/national/other-states/lockdown-halts-harvesting-season-in-forests/article31253235.ece)
amongst farmers and make it harder for them to support consumption and sowing in the next season. It is worth noting that agrarian distress has been brewing in the rural economy for a while and rural wages and incomes have remained sluggish since 2014-15 (Himanshu, 2019). COVID-19 is intensifying this crisis further. What is more, many of the migrants who have lost their jobs in urban areas and returned to their villages are likely to resort to work in the agricultural sector and the sector will act as an ‘employer of last resort’.

Next, we turn to the manufacturing sector which has been hit by multiple shocks concomitantly (Baldwin, 2020). The first shock came from containment measures as factories were closed. The second shock to the sector has come from disruptions in global supply chains which have hindered access to imported inputs. India’s manufacturing sector has a high dependence on imported inputs and this dependence has in fact increased over time (Ghose, 2016). It is worth noting that breaks in supply chains are likely to occur not only because of difficulties in procuring imports from other countries, but also because of disruptions in domestic supply chain as inter-state movement of goods has slowed down and different regions in the countries are likely to witness easing of lockdown restrictions at a differential pace. With the exodus of migrant labour from cities, factories are also likely to face labour shortages in the immediate term. The third shock for this sector is likely to come from demand disruptions. As job losses mount and earnings dwindle, the demand for manufacturing goods is likely to decline. This is particularly true for goods such as automobiles, clothing and footwear which are non-essential in nature and whose purchase can be easily postponed. We can expect to see not just a decline in output but also employment in the manufacturing sector as a consequence of these multiple shocks. That 83.5% of the manufacturing workforce is in informal work arrangements in India makes them particularly susceptible to layoffs.

The construction sector emerged as an important source of employment generation in India between 1999-2000 and 2011-12, growing annually at over 9% (Mahajan & Nagaraj, 2017). Significantly, the authors note that the employment boom in construction was largely a rural phenomenon with rural construction employment growing annually at 12%, compared to just 5% in urban areas. They attribute the expanding market for rural construction (in particular rural private residential construction) to rising rural wages and falling real price of cement during this period. However, in the period after 2011-12, the share of employment in construction has remained sluggish at approximately 12%. The tepid contribution of this sector to employment after 2011-12 is not just a consequence of the financial difficulties faced by it in the wake of the National Banking Financial Crisis, but also the sluggish growth of rural wages since 2014-15. For a sector that was already under stress, the pandemic and lockdown are likely to worsen matters. The sector will struggle to resume activity as it grapples with supply chain disruptions, labour shortages due to unavailability of migrant workers and sharp decline in income and therefore demand. Additionally, given the close

14 It is estimated that nearly 60% of imports are in the category of ‘intermediate goods’. (Ranagarajan, 2020) https://www.thehindu.com/opinion/lead/dressing-a-wounded-economy/article31167337.ece
15 The share of construction employment in total employment increased from 10.6% in 2011-12 to 11.7% in 2017-18 and then 12.4% in 2018-19. This is in sharp contrast to the period between 2004-05 and 2011-12, when the share of construction employment doubled from 5.6% to 10.6%.
proximity in which construction workers work (and often even live), the chances of the virus spreading at worksites are high.

Another badly affected sector is the trade, hotels and restaurants segment\textsuperscript{16}. Some workers in this sector are engaged in essential activities and may continue to work, despite facing greater occupational health risks (ILO, 2020). Most other workers are engaged in non-essential businesses which are facing widespread closures and are likely to face sharp reductions in employment. What is more, even as lockdown restrictions are relaxed, restaurants, hotels and brick and mortal retail units may not see an uptick in demand till a vaccine is developed for coronavirus. Given that a mere 4.7\% of workers in this sector fall in the category of regular formal employment, with a disproportionately large share in low paid and unprotected jobs, we can expect to see widespread layoffs as employers grapple with COVID-19 induced uncertainty. The importance of this sector as a source of employment generation is likely to diminish in the near term. Similarly, the transport, storage and communication industry which accounts for about 6\% of total employment is likely to be severely impacted by the COVID-19 shock. As passengers travel less, the transportation industry, road, rail and air is likely to suffer. This will affect in turn several other sectors closely related to them. A large number of workers in the transport industry, in particular air transport are likely to witness large scale job losses. On the other hand, demand for drivers, postal and other delivery workers, as well as people who work in warehouses may rise to meet the increased demand for online retail.

In contrast to the above sectors, services such as public administration, health and education are relatively low risk in terms of job losses. Health workers are high in demand and the sector is likely to witness significant expansion as governments are pushed to spend on healthcare in the face of a public health crisis. Education activities are more amenable to being moved online. Also, approximately 37\% of employment in these sectors is in regular formal jobs which offer some degree of social security, and are better placed to cope with the ongoing crisis. About 75\% of workers are in the category of RWS workers, with a mere 4\% in casual employment. Another sector which is marked by a fairly high share of regular formal workers (41.5\%) is the finance, business and real estate services. Although this sector is classified as having a medium to high risk, the relatively low share of workers in informal work arrangements and the ability to move work online, makes workers in this sector less vulnerable. Also, earnings of workers in this sector are higher than those in low-end services, making them better placed to deal with the crisis financially.

Overall, the above suggests that the first order effects of the COVID-19 shock have been particularly severe for sectors which account for the lion’s share of employment (80\%) i.e. agriculture, manufacturing, construction and trade, hotels and restaurants. Importantly, these sectors are an important source of employment for the less educated (Table 3). For instance, over 90\% of workers in construction have secondary education or below. In the manufacturing sector and the trade, hotels and restaurants sector the corresponding statistics stood at 76\% and 70\% respectively. We have also discussed above that these sectors are dominated by informal and precarious work arrangements (Table 3). In contrast, the high end

\textsuperscript{16} This includes the wholesale and retail trade segment as well as accommodation and food service activities.
service sectors, which are relatively less affected than the above-mentioned sectors by the COVID-19 shock, employ more educated workers and have a higher share of regular protected employment. However, their contribution to total employment is low (approximately 14%).

The differential impact of the COVID-19 crisis on workers depending on the nature of employment arrangement and sector of employment suggests that we are likely to see increasing inequality in India’s labour markets: between workers who have a steady source of income, some degree of social security, and are engaged in sectors that are more amenable to shifting their activities online and those who are not. It is also worth noting that the most secure jobs are typically held by the more educated (Table 4). More than 50% of those in regular formal jobs were graduates or post graduates. A mere 6% of those with regular formal jobs had primary education or below. In contrast, most workers who were self employed or casual workers, had low levels of education. Table 5 indicates that 80% of the self employed had secondary education or below and 25.7% were not literate. Amongst casual workers, the share of those who were not literate was 37%. Thus it is the relatively less educated, unskilled and low skilled workers who have a high probability of being rendered unemployed and losing livelihoods due to the sectoral profile of their employment and nature of work arrangement. They stand to bear a disproportionate brunt of the COVID-19 shock.
Table 4: Distribution of workers across sectors by educational qualifications (2018-19)

<table>
<thead>
<tr>
<th>NIC 2008</th>
<th>Not literate</th>
<th>Literate without formal education</th>
<th>Literate Below Primary</th>
<th>Primary</th>
<th>Middle</th>
<th>Secondary</th>
<th>Higher Secondary</th>
<th>Graduates and above</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>37.50</td>
<td>0.42</td>
<td>6.80</td>
<td>15.21</td>
<td>19.77</td>
<td>9.96</td>
<td>6.64</td>
<td>3.71</td>
<td>100</td>
</tr>
<tr>
<td>Mining &amp; Quarrying</td>
<td>20.91</td>
<td>0.07</td>
<td>10.31</td>
<td>12.02</td>
<td>21.33</td>
<td>12.54</td>
<td>10.66</td>
<td>12.15</td>
<td>100</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>14.00</td>
<td>0.33</td>
<td>5.70</td>
<td>15.79</td>
<td>25.71</td>
<td>14.62</td>
<td>13.89</td>
<td>9.96</td>
<td>100</td>
</tr>
<tr>
<td>Electricity, Gas &amp; Water supply</td>
<td>13.33</td>
<td>0.35</td>
<td>3.00</td>
<td>8.15</td>
<td>18.29</td>
<td>15.08</td>
<td>20.29</td>
<td>21.53</td>
<td>100</td>
</tr>
<tr>
<td>Construction</td>
<td>27.72</td>
<td>0.62</td>
<td>6.60</td>
<td>18.35</td>
<td>25.86</td>
<td>11.25</td>
<td>6.51</td>
<td>3.10</td>
<td>100</td>
</tr>
<tr>
<td>Trade, Hotel &amp; Restaurants</td>
<td>11.13</td>
<td>0.30</td>
<td>4.55</td>
<td>11.98</td>
<td>24.73</td>
<td>17.09</td>
<td>15.86</td>
<td>14.35</td>
<td>100</td>
</tr>
<tr>
<td>Transport, Storage &amp; Communication</td>
<td>9.94</td>
<td>0.33</td>
<td>3.85</td>
<td>12.97</td>
<td>25.58</td>
<td>15.05</td>
<td>12.30</td>
<td>19.99</td>
<td>100</td>
</tr>
<tr>
<td>Finance, Business, Real Est.</td>
<td>3.00</td>
<td>0.12</td>
<td>1.35</td>
<td>4.61</td>
<td>11.71</td>
<td>10.41</td>
<td>16.08</td>
<td>52.73</td>
<td>100</td>
</tr>
<tr>
<td>Health, Education, Public Admin</td>
<td>10.30</td>
<td>0.21</td>
<td>2.68</td>
<td>7.31</td>
<td>13.67</td>
<td>11.45</td>
<td>15.11</td>
<td>39.28</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>24.30</td>
<td>0.38</td>
<td>5.56</td>
<td>13.88</td>
<td>21.28</td>
<td>12.09</td>
<td>10.30</td>
<td>12.22</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: PLFS unit data (2018-19)

Table 5: Distribution of workers by educational qualifications (2018-19)

<table>
<thead>
<tr>
<th>Education level</th>
<th>Regular Formal</th>
<th>Regular Informal</th>
<th>RWS</th>
<th>Self Employed</th>
<th>Casual Workers</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not literate</td>
<td>2.29</td>
<td>11.79</td>
<td>7.93</td>
<td>25.70</td>
<td>37.41</td>
<td>24.30</td>
</tr>
<tr>
<td>Literate without formal education</td>
<td>0.04</td>
<td>0.19</td>
<td>0.13</td>
<td>0.43</td>
<td>0.50</td>
<td>0.38</td>
</tr>
<tr>
<td>Literate below Primary</td>
<td>1.25</td>
<td>3.90</td>
<td>2.83</td>
<td>5.67</td>
<td>8.03</td>
<td>5.56</td>
</tr>
<tr>
<td>Primary</td>
<td>3.28</td>
<td>12.66</td>
<td>8.85</td>
<td>14.20</td>
<td>18.14</td>
<td>13.88</td>
</tr>
<tr>
<td>Middle</td>
<td>10.52</td>
<td>23.57</td>
<td>18.27</td>
<td>22.46</td>
<td>21.72</td>
<td>21.28</td>
</tr>
<tr>
<td>Secondary</td>
<td>10.99</td>
<td>15.00</td>
<td>13.37</td>
<td>12.99</td>
<td>8.90</td>
<td>12.09</td>
</tr>
<tr>
<td>Higher Secondary</td>
<td>20.16</td>
<td>14.79</td>
<td>16.97</td>
<td>10.06</td>
<td>4.24</td>
<td>10.30</td>
</tr>
<tr>
<td>Graduates and above</td>
<td>51.48</td>
<td>18.09</td>
<td>31.65</td>
<td>8.51</td>
<td>1.06</td>
<td>12.22</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: PLFS unit data (2018-19)
3. Policy Responses

Prior to the COVID-19 crisis, India was grappling with high unemployment and underemployment. In 2017-18, the open unemployment rate stood at a 45 year high of 6.1% according to the Usual Principal and Subsidiary Status (UPSS) and 8.9% as per the Current Weekly Status (CWS). In 2018-19, the unemployment rate was 5.8% and 8.8% by UPSS and CWS respectively. The discussion in the previous section suggests that the severity of the jobs crisis is likely to accentuate as a consequence of the dual shocks of the pandemic and lockdown. Tackling this challenge requires appropriate and timely policy responses.

The first and foremost line of action in the current scenario is to provide immediate relief to the poor, displaced and vulnerable workers who have been rendered unemployed and lost their livelihood. There is widespread consensus that there is an urgent need for direct income support. Under the Pradhan Mantri Garib Kalyan Yojana (March, 2020), the government has announced cash transfers to certain targeted groups. This includes ₹ 500 per month for Pradhan Mantri Jan-Dhan Yojana (PMJDY) women account-holders for three months and ₹1,000 over three months to senior citizens, widows and Divyang. Given the enormity of the crisis, both the targeting and quantum of the transfers leaves much to be desired. The targeting of the current scheme is too narrow given that millions of daily wage workers, casual workers, landless agricultural labour, self employed like street vendors and waste recyclers and many more in non-standard employer-employee relationships are likely to have lost employment and livelihoods as a consequence of the dual shocks. Additionally, the ability of these individuals to work or make efforts to seek work may be adversely impacted in the immediate aftermath of the crisis due to a deterioration in the condition of their health. This may not simply be a consequence of infection from the virus, but also due to malnourishment and untreated illnesses which wither away their productivity. Temporary direct income support will not only help provide the vulnerable and displaced a financial cushion, but also provide a fillip to consumption that has unsurprisingly further collapsed after the lockdown due to job losses and income losses. Of course for transfers to in fact boost consumption, they need to be more generous than what has been announced thus far. A transfer that is at least half the amount of the minimum wage per month, whilst containment efforts are in place, should be a bare minimum.

While the benefits of direct income support are widely recognized, there are several implementation challenges. Significant amongst these are large exclusion errors. In a recent study, Pande, Schaner, Moore and Stacy (2020) estimate that of the 326 million women living below poverty line, more than half are likely to be excluded from PMJDY linked cash transfers. Additionally, access to banks (particularly when there are restrictions on mobility) may present a bottleneck even if transfers are received, as 26% of poor women live more than 5 kms away from their nearest banking point. Thus, many of the poor will remain vulnerable despite the attempt to provide relief. Dreze and Khera (2020) argue that compared to PMJDY accounts, Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) job-card lists are likely to have much better coverage of poor households and are also more transparent and well-organised. Thus, cash transfers linked to the latter are likely to be a more
effective way of reaching the poor. Triangulating information from different existing schemes such as MGNREGA, Pradhan Manti Ujjwala Yojana, Pradhan Mantri Awas Yojana and the Public Distribution System, as many have suggested, could also help in expanding the reach of cash transfers (APU, 2020).

It is also worth noting that in the context of crisis we are witnessing at the moment, there are many who may not be eligible for support under existing schemes but have witnessed a sharp decline in their income or lost jobs given the informal and insecure nature of their employment arrangement. Pushed into a dire situation they too will need income support. However, identifying such individuals will be a herculean task. Attempts to enhance their incomes will require accelerating the pace of creation of well paying and secure jobs. Such ‘good jobs’ are important not just to solve India’s employment crisis but also to address the problem of weak aggregate demand. Private consumption, which has been the main driver of India’s growth, accounting for approximately 60% of GDP has been falling and dragging down economic growth even before the onset of the pandemic. Nagaraj (2019) notes that between 2011-12 and 2017-18, the monthly per capita consumer expenditure in real terms (adjusted for inflation) declined by 3.7%. As unemployment levels increase and incomes and earning collapse in the wake of COVID-19, consumption demand is likely to fall sharply exacerbating India’s demand problem. People with no jobs and reduced income are unlikely to purchase goods and services other than essentials. What makes matters worse is that in the face of an epochal crisis, uncertainty induced precautionary savings will drive down consumption even further. As consumer demand diminishes, industries will be compelled to slow production, postpone investment and lay off workers. Higher unemployment will in turn generate a vicious circle where more consumers are without jobs or adequate income to purchase goods and services. Inadequate aggregate demand and high levels of unemployment can then lead to prolonged periods of economic slowdown unless the government intervenes with a massive amount of spending to spur demand (at least in the short run) and creates an enabling environment for industries to invest, produce and generate employment. To enhance the spending power of consumers and to boost aggregate demand, it is important that the jobs created are not just well-paying but also offer some degree of security. Work arrangements marked by job insecurity and earnings volatility create income uncertainty, thereby dampening consumption.

The importance of productive job creation cannot be overemphasized in India today. A comprehensive and clear cut plan needs to be put in place for this purpose. In this section, we explore possible elements of a strategy for generation of productive employment. Before proceeding it is worth noting that while the dual shock of the pandemic and lockdown have exacerbated the existing challenge of unemployment and weak aggregate demand, the containment policies have created a new crisis- the exodus of migrant labour from cities to their native villages following the sudden announcement of the lockdown. This has left factories and shops staring at worker shortages even as economic activities slowly commence. Thus, ironically even as unemployment rates estimated by CMIE remain stubbornly high, in many parts of the country, factories are likely to face labour shortages at least in the immediate-short term. Given the environment in which workers left, when and
whether migrants will return is unclear. Such uncertainties are likely to make the resumption of economic activity harder and will need to be borne in mind while laying out a strategy of employment generation.

3.1 **Supporting enterprises to protect low wage regular formal jobs**

To begin with, during this period of economic uncertainty, there is a need to provide wage support to enterprises to retain workers and prevent further job losses. As reports of large scale layoffs in many companies trickle in, a jobs preservation scheme assumes significance\(^{17}\). The initial policy response in many countries has been to put in place such schemes to prevent employment relationships from being severed. For instance, the UK Job Retention Scheme offers employers grants of up to 80% of an employee’s wage for all employment costs – up to a cap of £2,500 per month to avoid redundancies. Denmark has implemented a paycheck guarantee program wherein the government will compensate as much as 75% of the wages for some private sector employees who face the risk of losing their jobs. Such schemes not only help keep workers employed and incomes protected but also keep links between firms and workers intact and prevent the destruction of firm specific human capital (Fujita, Moscarini and Postel-Vinay, 2020)\(^{18}\).

It may be argued that such schemes have limited applicability in developing countries such as India as only a small proportion of the workforce is in regular formal jobs. Whilst this is true, it is also important to recognize that with a mere 9.6% of workers in regular formal jobs (and a little over 2% in jobs that offer the maximum degree of protection), there is a serious dearth of good jobs in India. And, because there are such few good jobs to begin with, we need to protect and preserve them. This is particularly important for those formal workers who are in the lower quintiles of the earning distribution and have little or no financial wherewithal to cope with unemployment. Moreover, in a post COVID-19 world, these workers once laid off may not be able to secure regular formal jobs as employers adopt more flexible or non-standard working arrangements. From a firm’s perspective too, retaining these workers for resuming activity is important at a time when migrant workers who are typically in informal work arrangements have left. Significantly, if firms are able to start production even at a reduced capacity with available workers, this may send a positive signal and provide some degree of security to migrants return to their workplaces.

Thus far, the government has offered to provide wage support by contributing 24% of monthly wages of those earning below Rs 15,000 per month into their Provident Fund

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\(^{18}\) The importance of firm specific human capital which involves skills and knowledge that have productive value in only one particular company is well established in the literature. A workers’ knowledge about their company’s operation and colleagues, or their proficiency in just the right combination of skills for the job, enables them work more productively and possibly earn more in their current firm that employs them than if they were to work somewhere else (Fujita, Moscarini and Postel-Vinay, 2020). Further, as Fujita el al (2020) note the destruction of this ‘matching capital’ as employment links get severed during a crisis can adversely impact worker welfare and productivity further dampening aggregate demand and prolonging the downturn.
accounts (PM Garib Kalyan Yojana, 2020). While this is a welcome step to protect low wage workers in the formal sector, the extent of the coverage needs to be increased given the enormity of the crisis. Grappling concomitantly with a liquidity crunch, disruptions in the supply chains and weak demand, firms are finding it extremely difficult to pay salaries in time. Micro, Small and Medium Enterprises (MSMEs) are in a particularly perilous state. Under the Atmanirbhar Bharat package (2020), the government has announced a Rs 3 lakh crore collateral free credit line for the MSME sector, ₹20,000 crore subordinate debt for stressed MSMEs and ₹50,000 crore equity infusion for MSMEs through Fund of Funds (Atmanirbhar Bharat, 2020). The package has focused on providing credit, and apart from extending the government’s EPFO contribution for an additional three months, there is no wage payment support. This needs to be reconsidered, especially as businesses struggle to resume industrial activity as lockdown restrictions ease. For instance, some industry representatives have suggested firms could be given GST credit equal to 50% of wage bill of low wage formal workers for six months which could be availed over the next two years. This could be done on the condition that these workers are not dismissed while firms are receiving this benefit.

It is worth noting that the above-mentioned scheme of government contribution to Provident Fund has been restricted to businesses having less than 100 workers. However, it needs to be noted that large enterprises account for a significant share of employment in the formal sector. Data from the Annual Survey of Industries, the most comprehensive database on registered factories, shows that over 75% of total manufacturing employment is in factories with 100 or more workers. In fact as data from Table 6 shows, the share of factories with 100 or more workers has been rising steadily and they have accounted for much of the increase in employment in the organized manufacturing sector. Excluding plants above this size threshold from wage support programme would mean that a significant share of those in the formal sector would get no cushion. On the other hand, putting a limit on monthly earnings to determine the beneficiaries of wage support is appropriate as the objective of such schemes globally is to protect low wage earners who are at risk of losing jobs. The question of how this wage support needs to be designed and financed for larger firms without giving rise to moral hazard needs to be thought through.

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19 This is particularly necessary for those enterprises which are producing non-essential goods for which demand is likely to remain muted. In an environment of increased economic uncertainty, these MSMEs might be compelled to shut down and lay off workers.

20 Data from ASI does not allow us to classify workers into regular formal and regular informal category. It provides estimates of directly employed workers and those employed via contractors. The two sets of categories cannot be mapped accurately. However, given that enterprises having 100 or more workers account for a large share of employment, it is not unreasonable to expect that they also account for the lion’s share of regular formal workers.

21 For larger firms, it may be worth creating a specific credit line for proving wage support for low wage regular formal workers on the condition that workers are not dismissed while enterprises are receiving this benefit.
Table 6: Distribution of Employment in Formal Sector by Factory Size

<table>
<thead>
<tr>
<th>Factory Size</th>
<th>2000-01</th>
<th>2015-16</th>
</tr>
</thead>
<tbody>
<tr>
<td>10-19 workers</td>
<td>6.38</td>
<td>4.08</td>
</tr>
<tr>
<td>20-49 workers</td>
<td>11.65</td>
<td>8.43</td>
</tr>
<tr>
<td>50-99 workers</td>
<td>11.60</td>
<td>9.90</td>
</tr>
<tr>
<td>100 or more workers</td>
<td>70.37</td>
<td>77.58</td>
</tr>
</tbody>
</table>

Source: Annual Survey of Industries unit data (2000-01 and 2015-16)

Before concluding this section, it is important to highlight that the firm landscape is dominated by informal enterprises. This is particularly true in the category of micro-enterprises, where almost all firms are informal. While wage support to formal enterprises is an important way of providing cushion to low wage earners in the formal sector, direct income support would still remain the principal means of providing immediate relief to a disproportionately large share of the workforce in informal enterprises and informal workers in formal enterprises.

3.2 Temporary reallocation of workers

A striking feature of the nature of the Covid-19 shock has been the asymmetric effect it has had across sectors. While there have been sharp falls in labour demand in many sectors of the economy rendering many unemployed, there have also been acute labour shortages in other sectors. For instance, air travel, non-essential retail, hospitality and leisure businesses have had to curtail activity significantly in line with containment policies. The revival of activity in these industries is likely to be complex and long-drawn-out. Closures in these sectors have had ripple effects on their supply chains and reduced labour demand in them too. On the other hand, sectors such as healthcare, supermarkets, warehousing and delivery services which are seeing spikes in demand are facing acute labour shortages.

The differential pace of economic activity across sectors will require a temporary reallocation of labour resources to sectors facing labour shortages. Such reallocations can not only help meet labour needs of the sectors witnessing an increase in demand, in particular those sectors producing essential goods and services, but also provide a way of cushioning many of those who have lost jobs. Recent examples show that such appropriate matches between different occupations exist. For instance, laid-off cabin crew at Scandinavian Airlines have been offered fast-tracked healthcare training in Sweden since cabin crew are already trained in first-aid and following emergency procedures. In India too, large online groceries and pharmacies such Big Basket, MedLife and Grofers which are witnessing a spike in demand are hiring additional staff by roping in idle staff at restaurants and taking help from online job portals to meet their need of experienced riders.\(^{22}\) However, the re-allocation of unemployed workers to sectors facing shortages needs to be done on a wider scale, especially since

different industries will operate at different capacities not just because of the way exit policies are designed, but also because demand is likely to tilt towards essential items and away from non-essential items whose consumption can be postponed at least in the short-term. This re-allocation will require a concerted effort by governments and industry associations to identify the skills needed to perform jobs for which there are labour shortages, and identify occupations in low-demand sectors that correspond to these skills. Some states are in the process of mapping skills of migrants who are returning to their home states to provide them employment. It does need to be clarified though that the overall job losses in the economy far outweigh possible job gains from re-allocation. Additionally, often those who have lost jobs, may not fit easily into jobs available. Nevertheless, it is an effort worth undertaking if it can provide financial cushion to some displaced workers.

3.3 Strengthening Workfare Programmes

Given the large scale loss of livelihoods, strengthening workfare schemes such as MGNREGA that provide a safety net for the poor and vulnerable is critical. The central government has recently allotted additional funding of ₹40,000 crore to the programme bringing the total budget of the programme to ₹1 lakh crore (approximately 0.5% of GDP) for the financial year 2020-21. However, to meet the huge surge in demand for MGNREGA works several immediate steps needs to be taken. This includes large scale opening of MGNREGA worksites, allowing workers to enroll at worksite as opposed to entering their names in e-muster rolls in advance, expanding the list of permissible works and reverting to cash payments to ensure timely payment of wages (Dreze, 2020 and Khera, 2020). The need to expand and strengthen the programme assumes even greater significance in the current situation where a large number of migrant workers have returned to their native villages and there is an additional pressure for rural jobs. MGNREGA can offer a temporary cushion to these workers and it might be worthwhile increasing the number of work days per rural household to over 100\(^2\). It is also worth noting that MGNREGA provides an unemployment allowance in the event employment is not provided within fifteen days of submitting the application (or from the date when work is sought in the case of an advance application, whichever is later). In the absence of direct income support, the unemployment allowance is the least that should be provided to MGNREGA workers during the current crisis to provide some financial relief.

Given the devastating effects of COVID-19 and containment policies on the urban informal poor in the absence of safety nets in urban areas, there is a need to implement an Urban Employment Guarantee Programme. Since it is an urban programme, its design (and wage level) will need to be thought through carefully and differently from MGNREGA. In particular as Idiculla, Narayanan and Basole (2019) note the urban programme would need to have a wider scope than a rural program in order to provide employment for a variety of

\(^2\) The Act already provides for extending the number of guaranteed days of work from 100 to 150 at a time of drought or national calamity.
works for people with a diverse range of skills and education levels. The government of Odisha has recently (April, 2020) announced a ₹100-crore Urban Wage Employment Initiative which is expected to generate employment for the poor in 114 urban local bodies. Media reports suggest that this initiative will focus on “labour-intensive work such as maintenance and upgradation of toilets and water infrastructure” and seek to support local artisans through projects such as wall painting and murals in urban areas.

In addition to employment generation and productive asset creation, workfare programmes can play an important role in boosting local demand and generating multiplier effects by enhancing incomes of workers at the bottom of the pyramid. Furthermore, by setting a wage floor and reliably providing work, these programmes help enhance the bargaining power of labour and put upward pressure on rural wages. Narayanan (2020) examines the literature on the impact of MNREGA on rural wages and notes that after the introduction of the programme, rural wages increased by around 1-9% across different demographic groups and regions. Significantly, she notes that the benefits of higher wages accrued mostly to the poorest and disadvantaged communities and in the slack season when agricultural work is unavailable. The ability of workfare programmes to set a wage floor assumes significance in a labour surplus economy where enforcement of minimum wages, in particular in the unorganised sector is a near impossible task.

3.4 Industrial Policy

Whilst employment guarantee schemes like MGNREGA have a crucial role to play particularly in the short term to provide a cushion to those rendered jobless in the wake of the pandemic and the lockdown, they cannot offer a permanent solution to the jobs crisis. This is apparent from the fact that several educated jobseekers (graduates and postgraduates) have been compelled to resort to MGNREGA works, in the absence of alternative employment opportunities. Such trends are also an indicator of the extent of underemployment that is likely to prevail in the labour market. In this backdrop, it is important for India to put in place an Industrial Policy (IP) to generate productive employment in the long run. Broadly, IP refers to a set of policies designed to encourage the development and growth of certain sectors of the economy. This is done so as to alter the structure of production towards sectors that are expected to offer better prospects for economic growth and employment generation than would occur in the absence of such interventions (Noland and Pack, 2003). Although, IP has been criticised over the past few decades for picking winners and losers, increasingly there has been a rethink on the subject.

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24 The State of Working India Report (2019) lays out a proposal for such a scheme that will provide employment within town or city limits to all those who ask for it and thereby provide services to all residents, build our civic infrastructure, and restore the urban commons. This will help improve the quality of urban infrastructure and services, restore urban commons and ecology, skill youth, and increase the financial and human capacity of Urban Local Bodies


The significant collapse in both growth and employment levels as a consequence of the COVID-19 shock is likely to push the envelope further on IP.

Identification of relevant sectors can however not be done in an ad-hoc manner and a structured framework is needed for this purpose. Errors in IP can be very expensive for the public exchequer. To design an effective IP, governments need to understand their competitive position with respect to other countries and the rest of the world. They need to identify products and industries that are in line with their current endowment structures and those where there is a growing demand. While the endowment structures capture the supply side, demand is driven by both international and domestic factors (UNIDO, 2014). However, if trade and global value chains are to become less important drivers of growth and job creation at least in the medium term in the face of the COVID-19 shock, there will be challenges on both the demand and supply side. On the supply side, as global supply chains are disrupted, availability of intermediate imported inputs is likely to be a challenge for many industries. On the demand side, as global trade is disrupted, the strategy of focusing on products/sectors targeted at exports to international markets might need to be reconsidered. Concomitantly domestic demand too is likely to remain muted given increase in unemployment, loss of income and rise in precautionary savings.

In this backdrop, governments will need to kickstart growth and job creation by providing a fiscal stimulus to certain key sectors. It would be worthwhile revisiting Hirschman’s (1958) proposal of identifying specific sectors based on their backward and forward linkages with the rest of the economy for this purpose. One sector with strong backward and forward linkages is the construction sector. Cross-country estimates suggest that gross construction linkages are strong and the economic impact of construction activities is relatively evenly dispersed over the large number of sectors from which they obtain their inputs (Polenske & Sivitanides, 1990). Importantly, since this sector has the potential to provide employment to unskilled and low skilled workers, its expansion can put income in the hands of the poor who have a high marginal propensity to consume. A massive public investment in infrastructure, both in urban and rural areas, can not only help address India’s infrastructure needs (including affordable housing) but also boost employment creation.

Another critical sector that India cannot afford to ignore is the manufacturing sector. It is a well established fact that India has witnessed an idiosyncratic structural transformation process which has been marked by a shift straight from agriculture to service led growth, leapfrogging the phase of manufacturing growth. However, the sector has failed to emerge as a key driver of growth and job creation and its share in GDP and employment has remained flat at 15% and 12% respectively for almost four decades. As Ghose (2016) notes, historically

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27 Backward (input-provision) linkage of a given industry is strong when its growth stimulates the production of other upstream industries which provide inputs required to sustain the chosen sector’s production process. Forward linkages, on the other hand, occur when the output of an industry becomes the input for other industries (ibid).

28 Estimating the size of the linkages will require careful analysis of input output tables. Importantly, the size of the linkages will depend on the product mix (subsectoral composition of construction sector), relative price of construction inputs and type of construction technologies (Polenske & Sivitanides, 1990).
countries at India’s level of development experience manufacturing-led and not service-led growth. The ability to generate jobs for large masses of India’s low skilled and semi skilled workers will depend critically on the performance of the manufacturing sector. Significantly, the sectoral composition of growth within manufacturing has been such that it is capital intensive and skill intensive industries which have performed better than labour intensive ones (Kapoor, 2014). Therefore, an industrial policy with a focus on labour intensive manufacturing would be particularly desirable29. Although it may be argued that export-oriented labour intensive manufacturing may be a less reliable path of growth and job creation in the short to medium term, it is worth remembering that India is still classified as a low middle income country with a per capita gross national income of a little over USD 2,000 per year (World Bank, 2018) 30. Consequently, there is considerable untapped demand for manufactured goods of an affordable variety from those in the low and middle income deciles31. A case in point is the apparel industry where India has failed to exploit its labour surplus advantage and domestic demand is being met by imports from Bangladesh. In 2018-19, Bangladesh’s readymade garment exports to India stood at $365 million.

While tapping into domestic demand can potentially generate a virtuous circle of industrial development, job creation, income generation and demand diversification (UNIDO, 2018), there are several sectors where India has established a comparative advantage globally and it stands to gain by increasing capacity. One such example is India’s chemicals, chemical products and pharmaceuticals industry which accounted for approximately 10% of total employment in the organized manufacturing sector in 2016-1732. Despite India being referred to as the “pharmacy of the world”, a substantial part of the raw materials- Active Pharmaceutical Ingredients (API) and Key Standing Materials come from China. Even before the outbreak of the coronavirus which disrupted globally supply chains, a Report of Parliamentary Standing Committee on Commerce (2018) noted that India needs to strengthen its API manufacturing capability. Given that the API sector is a very high investment area, the report noted that attracting investments will require government support in terms of common infrastructure and facilities. This would not only further cement the Indian pharmaceutical industry’s position in global markets but also generate employment.

29 It is worth noting that two recent policy initiatives- Make in India’ and the National Manufacturing Policy (2011) did not identify key sectors and distinguish between industries where India had a comparative advantages and those where it did not.
30 https://data.worldbank.org/?locations=XN-IN
31 Data from NSS’s last Consumer Expenditure Survey provides information on households possessing specific durable goods across various fractile classes of Monthly per capita Expenditure (MPCE). The low possession rates of these items suggests that there is considerable unmet demand for manufactured goods particularly in rural areas. For instance, in rural India only 2.9% of households possessed a washing machine. The highest possession of washing machines (at 19.1%) was reported in households above the 95th percentile of MPCE. In urban areas, possession rates were relatively higher at 21.3%, but here too it was only amongst those who were above the 90th percentile where possession rates were around 50%. Similar trends are observed in the case of refrigerators, which are considered standard household appliance. In rural areas, only 9.4% of households possessed refrigerators, with only those above the 95th percentile reporting possession rates of about 42%. In urban areas, possession rates were higher (with 43.8% of households possessing refrigerators), and this was largely amongst those above the 80th percentile31.
32 This corresponds to National Industrial Classification (2008) codes 20 and 21. In 2016-17, the share of India’s chemical, chemical products and pharmaceuticals industry was comparable to that of textiles industry at 10.84%. This despite the fact that the latter was significantly more labour intensive.
However, this does not in anyway suggest that we should resort to a strategy of import substitution industrialisation. The experience of the apparel industry highlights how the lack of hassle free imports of critical inputs such as synthetic fibres have hurt the competitiveness of this industry. Therefore, India needs a trade policy which is compatible with industrial policy (Mehrotra, 2018 and Ghose, 2016). And these need to strike a fine balance between self-reliance and globalization.

Finally, it needs to be noted that India’s pattern of regional development has been particularly uneven. Bandyopadhyay (2012) finds that since the 1960s, India’s regional growth performance has been polarised, characterised by a high-income club and a low-income club. While the rich club constitutes states such as Gujarat, Maharashtra, Punjab and Haryana, Tamil Nadu and Karnataka, the low-income club includes Orissa, Bihar, Rajasthan, Madhya Pradesh and Uttar Pradesh. Moreover, she finds the composition of these clubs has remained largely unchanged over the last four decades. A consequence of this uneven pattern of regional development has been that large masses of migrants have moved from the low income club to high income club. Data from the Economic Survey (2017) found that states like Delhi, Maharashtra, Tamil Nadu, and Gujarat attracted large numbers of migrants from the Hindi heartland of Uttar Pradesh, Bihar, and Madhya Pradesh. The lack of employment opportunities in the latter states drives many of these migrants from their home states to work in low paying unproductive informal jobs and live in what Majid (2020) describes as ‘adverse accommodation arrangements’ in the high-income club states. As the pandemic brings to the fore the adverse effects of regional disparities and the precarities of migrant workers, it may also be worth revisiting location based industrial policies to lay out a path of balanced regional development to generate gainful employment opportunities in the low income club.

3.5 Extending Social Security to Informal Workers

Simply creating more jobs is not enough in the Indian context. These jobs need to be secure and offer a basic minimum degree of social protection to all workers regardless of the nature of their employment status or contract. COVID-19 has highlighted the vulnerabilities of both the working poor in the informal sector and informal workers in the formal sector. This includes street vendors, waste pickers, homebased workers, own account workers, industrial outworkers, contract workers, contributing family workers and domestic workers, many of whom are migrants. Extending social security to informal workers in line with the recommendations of the National Commission for Enterprises in the Unorganised Sector

33 Roy (2019) points out that Tirupur and Gujarat may be high-wage geographies to produce ₹400 shirts. Locating industries in Bihar, Jharkhand and other eastern and northern states will not only kick-start investment in these regions, but also provide employment opportunities while taking advantage of their abundant pool of reasonably priced labour which has acquired skills because of migration over the years. https://www.thehindu.com/opinion/interview/structural-policies-needed-for-7-plus-growth/article30152893.ece

34 Data from employment unemployment surveys shows that while there has been some decline in the share of workers employed in informal enterprises over time (from 87.4% in 2004-05 to 81.1% in 2017-18), the share of informal workers in the formal sector increased from 5.8% to 9.5%. Hence, the total share of informally employed didn’t change much. Data from enterprise surveys also shows the increasing informalization of employment relations in the formal sector over the last two decades (Kapoor & Krishnapriya, 2019).
(NCEUS, 2006) is more important today than ever before. The Commission made a case for national minimum social security covering life, health and disability, maternity and old age protection for all workers in the informal economy to be covered in a phased manner over a period of five years. In addition, the Commission recommended a minimum set of conditions of work which included an eight-hour working day and a national minimum wage. India is currently in the midst of drafting a labour code that seeks to provide social security to informal workers (Code on Social Security, 2019). While this is a welcome step, the bill is not based on a universal approach as envisaged by the NCEUS. In the wake of the ongoing crisis, there is an urgent need to revisit the Code on Social Security and establish an architecture for a universal social security floor.

It needs to be noted that there are significant challenges in designing and implementing social protection schemes for informal workers who are outside the ambit of standard employer-employee relationships. This is both on account of the heterogeneity within the informal sector and the long term fiscal sustainability of such schemes. Whilst self-employed informal workers do not have an employer who can co-contribute to social insurance schemes, casual workers have no stable employers and may be working across multiple employers. WEIGO (2019) highlights several examples of creative solutions that have been adopted by informal workers’ organisations to address these challenges. For instance, the Mathadi model in Maharashtra provides social protection for headload porters, financed by an additional charge levied onto the cost of hiring the headload porter. The Self Employed Women's Association (SEWA) of India has also devised a comprehensive approach of providing social protection (health care, child care and insurance against risk) for informal women workers (Chen, 2019). The success of such models, however, depends on the ability of unorganized workers to effectively organize and increase their collective representative voice.

To prevent informal workers from falling through the cracks in the social security net, in particular the most vulnerable informal workers who cannot afford to co-contribute to social insurance schemes, governments will need to significantly expand their outlays for social protection. Arguably, this will put greater demand on fiscal resources at a time when growth and tax revenues are collapsing. However, it is worth recognizing that the costs of extending social protection to informal workers are in fact an investment in workers’ well-being and will enable labour markets to become more secure. This is particularly important in a post COVID-19 world as the crisis has increased risks and uncertainties for employers. Firms are less likely to hire permanent workers and instead opt for flexible working arrangements, where they do not need to bear the fixed costs associated with the former or employers’ social security contributions. Such trends may leave an even larger share of the workforce without any protection.

4. Conclusion

The COVID-19 crisis has accentuated the problem of high unemployment and weak aggregate demand that the Indian economy was grappling with even before the onset of the pandemic. It has not only resulted in large scale job losses and loss of incomes, but also increased poverty. With a disproportionate burden of the shock being borne by those who
were working in low paying, precarious and informal jobs, the dual shocks of the pandemic and lockdown have exacerbated inequalities in the labour market. Most of these individuals will not be able to afford remaining unemployed in the months to come and if the prospects of finding jobs in the near future are bleak, they are likely to resort to self employment in the informal economy as a survival mechanism. As Ghose (2016) notes the predominance of both self-employment and casual employment in India is largely a consequence of the fact that it facilitates work sharing arrangements as the working members of the household share the work and income from the household enterprise. This feature of work sharing enables own account enterprises to function as a reservoir of surplus labour which exists in the form of underemployment of many workers rather than in the form of unemployment of some workers (ibid). Thus, in the months to come, we can expect to see an increase in the extent of under-employment and the size of the informal workforce, even if open unemployment rates decline.

There is an urgent need to put in place a comprehensive plan to create well paying secure jobs, not just to address the challenge of open unemployment and underemployment but to enhance workers’ earnings and to boost consumption. Such a strategy needs to be cognizant of India’s dualistic labour markets where a very small proportion of workers are in formal secure jobs. In the immediate term, the principal means of providing support to the large proportion of the informal working poor is through direct income support. To prevent further job losses, this needs to be accompanied with wage support for enterprises to protect low wage formal workers in their existing jobs. Employment guarantee schemes will also play a crucial role in providing a cushion to those rendered jobless. In the long run, we need a reorientation of growth strategy to focus on sectors which are critical for job creation. This calls for an industrial policy with a focus on labour intensive manufacturing and construction. Also, as the pandemic exposes the precarities of informal workers, there is a need to extend a basic minimum social security to all workers.

Finally, it needs to be pointed out that the statistics discussed in this paper pertain to the employed and unemployed who collectively make the labour force. But the labour force accounts for just half of the working age population according to the PLFS (2018-19). More recently estimates from CMIE suggest that the labour force participation rate has dropped dramatically from 42.6% in the week of March 22 (just before the declaration of a national lockdown) to 38.2% in May, 2020 (Vyas, 2020). The sharp decline in the participation rate since the onset of the pandemic and announcement of lockdown is unsurprising. It is important to note that the labour force comprises of those who are willing to work and are actively looking for work. An individual would have to meet both these criteria to be classified as being in the labour force. In the situation of a partial or complete lockdown, many of those who are willing to work would be unable to move freely and make an active effort to seek employment. Or they may simply not be making an active effort to find employment knowing that their prospects of finding a job in the current situation are bleak. Thus, they would be classified as being ‘out of the labour force’. Such individuals who want employment but do not carry out activities to seek employment are referred to as ‘available

potential jobseekers’ and fall into the category of ‘potential labour force’ (19th International Conference of Labour Statisticians). It is possible that while the labour force participation rate may have fallen during the lockdown, the potential labour force may have increased. This suggests that there are a large number of potential jobseekers who have a pent-up demand for jobs and the magnitude of the jobs challenge may be even more severe than the intensity of the debate suggests.
References


