

Forms of Informal Employment and Wage Inequality in India: a review of trends

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The ‘alternative’, ‘atypical’ or informal workforce has grown in developed and developing countries (Charmes 2011). Over time, the manifestations and motivations of these employment arrangements have changed (Maloney 2004). One of the more recent evolutions of informal employment has been of informal employment within formal enterprises. In the interest of flexibility and cost-reduction, many formal firms in India and across the world increasingly hire workers on a temporary or informal basis.

Alongside, and perhaps, as a result of the persistence and pervasiveness of informal employment, issues relating to inequality in outcomes and opportunities have come to the fore. In India, consumption inequality has risen since the 1990s (Anand and Thampi 2016). Wage inequality has been examined to a lesser extent and has declined in rural areas while increasing in urban (Cacciamali et al. 2015).

This paper is motivated by these two intertwining aspects of the Indian labour market – informality and wage inequality. The paper analyses the informal workforce in India beginning with an examination of the recent progress in its measurement. Using nationally representative sample data, it reviews the various manifestations of informal employment and chronicles recent trends, with particular focus on recent forms of informality. It examines the trends in wage inequality among the various forms of informal workers, overlaying these findings with the broader trends in inequality and identifying the sources of these inequalities.

The informal economy consists of informal enterprises and informal workers, who may or may not be employed in informal enterprises. The informality of their employment lies in the fact that it is unaccompanied by basic social security benefits, ‘not subject to national labour legislation, income taxation, social protection or entitlement to certain employment benefits’ (ILO 2003). The lack of information on informal enterprises in general, and the ambiguity and data-vacuum with respect to social security benefits compound the challenges in the measurement of the informal workforce.

Until recently, the nationally representative Employment Unemployment Survey (EUS) did not collect information on workers’ social security benefits. However, in 1999-2000, information was sought pertaining to the availability of Provident Fund benefits alongside employment. In subsequent rounds, this question has been expanded to include information on other forms of social security.

A regression-based decomposition analysis (Fields 2003) is used to identify source of wage inequality among the employment groups.

Based on latest rounds of EUS India (1999-2000, 2004-05, 2011-12) this paper broadly categorises employment outcomes into four categories - informal workers in formal enterprises (IFE), informal workers in informal enterprises (IIE), self employed (SE) and formal workers (FE).

In 2011-12, 75% of workers did not have access to PF. Around 68% of workers had no paid leave, about 80 % lacked access to healthcare and maternity benefits and about 76% had no written job contract. While the self employed accounted for 19(39) percent of the rural (urban) workers in 2011-12, their shares have been declining since 2004-05. Instead, there has been an increase in wage based informal workers. The informally employed in informal enterprises (henceforth IIE) increased in rural areas from 9 per cent in 1999-2000 to 17 per cent in 2011-12, In the urban areas, the IFE increased from 10% of the labour force to 18% in 2011-12. Examining the demographic profile of these workers, the analysis reveals that the IFE closely approximate the formal workers in terms of their education levels and age profiles. The IIE on the other hand are similar to the conventional understanding of informal workers – very old, or very young, illiterate or undereducated, and with minimal experience and skills.

Wage inequality measured by the overall Gini coefficient, has increased since 1999-2000 (Gini=0.47) and 2004-05 (gini =0.52), and registered a marginal decrease in recent years (in 2011-12, gini = 0.50). This trend is reflected only amongst the IFE. Among the FE, inequality has increased consistently, while declining among the IIE.

The regression-based decomposition (Fields 2003) revealed that among the formal workers, education accounted for 32% of wage inequality, followed by experience and occupation-type. Among the IIE, on the other hand, education had a relatively smaller contribution to wage inequality. Instead, gender and state were important. Among the IFE, again, there were close similarities with the formal workers with education accounting for a significant share of wage inequality.

The informal hiring in formal enterprises is a representation of a perverse form of economic growth, where educated and qualified individuals are working in vulnerable employment, reinforcing the notion of the creation of a ‘precariat’ class (Standing, 2014). Implicitly facilitated by ineffective and counter-productive labour laws (Chakraborty 2015), this ‘low road to growth’ led by lowering wages and labour standards rather than innovating or improving productivity (‘high road to growth’) signals a race to the bottom (Sharma 2006) in the pursuit of economic growth, with a perpetuating of existing inequalities. There is need to reinforce the existing data collection to better understand the intricacies of these forms of informal labour and its implications.

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