

The labor market in India since the 1990s

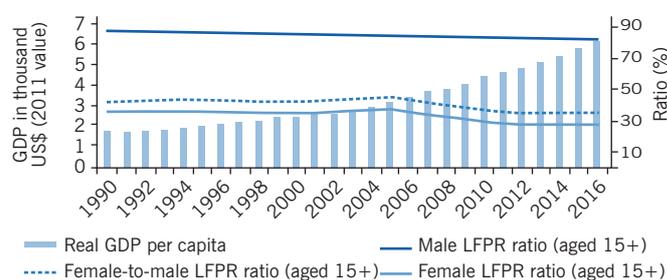
Productivity growth and low unemployment have not been matched by comparable rises in wages

Keywords: wage rate, unemployment, labor force participation rate, India

ELEVATOR PITCH

The Indian economy entered an ongoing process of trade liberalization, domestic deregulation, and privatization of public sector units in 1991. Since then, per capita output has increased significantly, while the overall unemployment rate has remained low. However, labor force participation rates have fallen sharply, especially for women. In addition, youth unemployment remains stubbornly high, an overwhelming proportion of the labor force continues to work in the informal sector, and there is little evidence of a sustained rise in wages for either unskilled rural or factory workers.

While real GDP grew significantly, labor force participation rates (LFPR) declined



Source: ILO modeled estimates; World Bank. *World Development Indicators*. Online at: <https://data.worldbank.org/>

IZA
World of Labor

KEY FINDINGS

Pros

- + At present, real GDP per capita and real GDP per person employed are both about 3.5 times their respective 1991 levels.
- + The overall unemployment rate has remained essentially below 5% since 1991.
- + Average labor productivity in organized manufacturing is now almost three times higher than in 1990.
- + After a period of stagnation, unskilled rural wages increased by around 35% in the period 2007–2013; wages also rose in the organized manufacturing sector, though to a much lesser extent.

Cons

- For young workers (aged 15–24), unemployment has remained steady at around 10%.
- Since 2005, the labor force participation rate has fallen sharply for both women and younger men; the female participation rate fell relative to the male rate by around ten percentage points.
- Labor productivity in agriculture and related sectors has fallen to about 30% of the economy-wide average, even though almost half the labor force remains in these sectors.
- Over 90% of the labor force continues to be in the informal sector, with no job security or protective labor legislation.

AUTHOR'S MAIN MESSAGE

The Indian economy has performed well in terms of GDP growth and increases in output per worker over the last 25 years. There has been significant structural change during this time, with the importance of agriculture relative to total output falling sharply. While the aggregate unemployment rate has remained low, this is associated with a large fall in labor participation among women and young men. Employment continues to be overwhelmingly informal in nature, without security, income stability or the benefit of protective legislation. Major reforms are needed in a host of areas before India's most pressing labor-related issues can be addressed.