



## State of Formal Employment In India

**For Prelims:** State of Formal Employment In India, [Employees Provident Fund \(EPF\)](#), [Labor Rights](#), [Pandemic](#), [Labour Force Survey Report](#), [Labour codes](#).

**For Mains:** State of Formal Employment In India.

[Source: TH](#)

### Why in News?

[Employees Provident Fund's \(EPF\)](#) data indicates **net increases in contributors**, but this contradicts **ground reports of Unemployment and Job Scarcity** in India.

- The Indian government has been using the EPF's data to measure **the Formal Employment** creation since 2017.

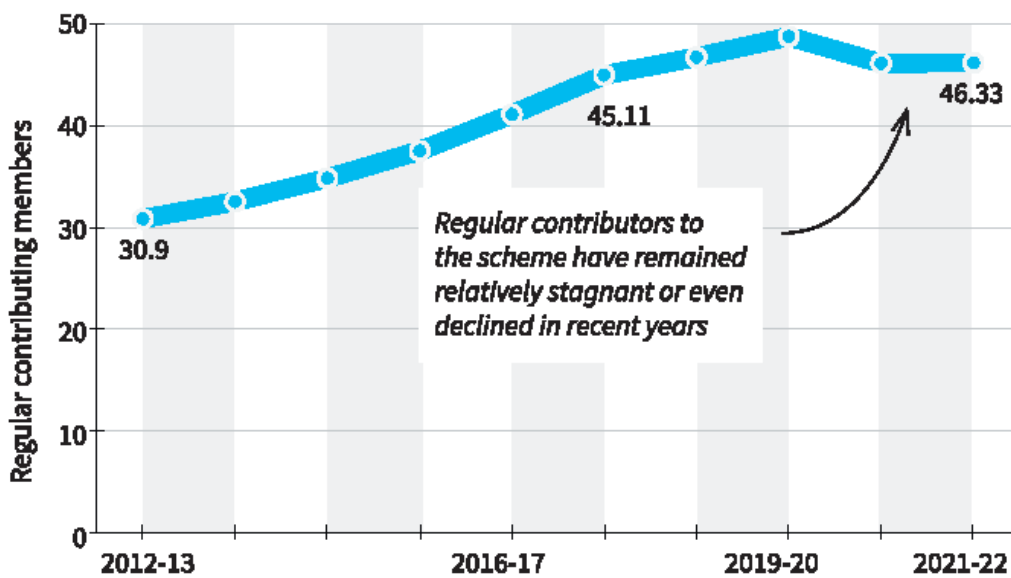
### What is Formal Employment?

- **About:**
  - Formal employment refers to a type of employment where the terms and conditions of **work are regulated and protected by labor laws** and employment contracts.
  - It is characterized by **certain features that distinguish it from informal or casual employment.**
- **Key Features:**
  - **Written Contracts:** Formal employment typically involves a **written employment contract that outlines the terms of employment**, including job responsibilities, working hours, compensation, benefits, and other terms and conditions.
  - **Social Security:** Formal employees are **often entitled to social security benefits** such as health insurance, retirement funds, Provident fund, unemployment benefits, and other **forms of financial protection.**
  - **Labor Rights:** Formal employees have specific [Labor Rights](#) **protected by law, such as the right to join trade unions**, collective bargaining, protection against unfair dismissal, and access to legal recourse in case of disputes.
  - **Regular Payment:** Formal employees **receive regular wages or salaries**, usually on a fixed schedule, which provides a stable income source.
- **Informal Employment:**
  - Informal employment refers to work that is not **regulated or protected by labor laws**, lacks formal employment arrangements, and often operates outside the scope of government oversight.
  - Informal employment can lead to **precarious working conditions** and hinder economic growth as it may result in lower productivity and higher income inequality.

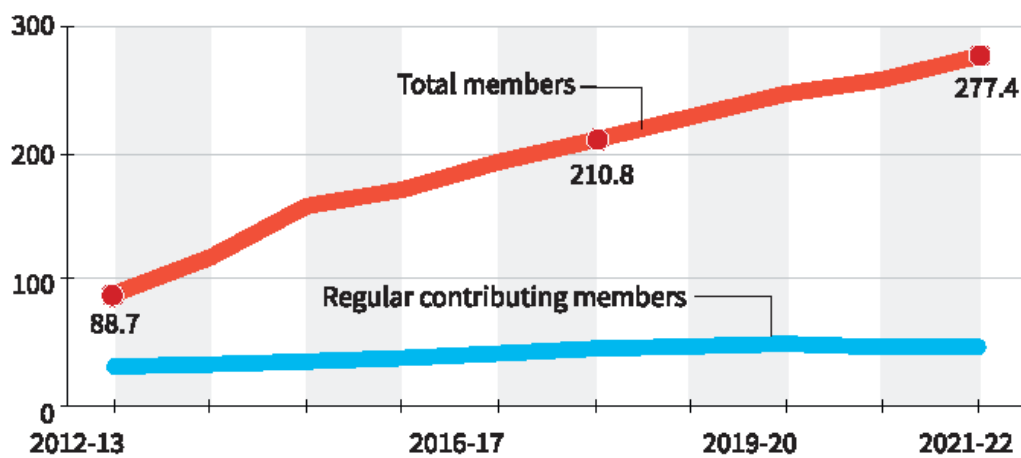
### What does the EPF Data Say about Formal Jobs?

- EPFO's annual reports **show a stagnant or declining number of regular contributors**, those with **consistent PF contributions**, in recent years.
  - Between 2012 and 2022, the number of regular contributors to the EPF increased from 30.9 million to 46.3 million.
  - Between 2017 and 2022, the **number of regular contributors increased only from 45.11 million to 46.33 million**, showing a slowdown in growth during this period.
- Total EPF enrollments increased significantly, but the **corresponding increase in regular contributors was minimal**.
  - Between 2017-2022, overall EPF **enrollments increased from 210.8 million to 277.4 million**.
  - The difference between the total number of EPF enrollments (277.4 million) and the number of regular contributors (46.33 million) indicates that a **significant portion of enrollments is not resulting in regular contributions**.
- The majority of EPF enrollments are linked to temporary or casual jobs with **irregular PF contributions**.

// **Chart 1** | The chart shows the number of regular contributors (in million) to the scheme



**Chart 2** | The chart shows the overall enrolments and the number of regular contributors in millions. In the past five years, regular contributors increased by 1.2 million but the total number of EPF enrolments increased by around 67 million



#### ▪ **Factors Leading to the Decline in Contributors:**

- The EPFO **disputed its own data and stopped publishing monthly reports** on regular contributors.
- The **Pandemic** further worsened the situation, leading to a **decline in EPF contributors**.
- The Indian government neglected other sources of formal employment data, like the **Directorate General of Employment and Training (DGET)**, which has not been published since 2013.

### What is the Scenario of the Job Crisis in India?

#### ▪ **Unemployment Rate:**

- According to **the National Statistical Office's (NSO) Periodic Labour Force Survey (PLFS)** report for the year 2021-22, the unemployment rate for 2021-22 was 4.1%.

#### ▪ **Low Labor Force Participation Rates (LFPR):**

- According to **Centre for Monitoring Indian Economy (CMIE)**, India's LFPR fell to 39.5% in the financial year (2022-23).
  - This is the lowest LFPR reading since 2016-17.
- The LFPR for men stood at a **seven-year low of 66%** while that of women was pegged at a mere 8.8%.
  - The LFPR is the share of the working-age population (aged 15 years and above) that is employed or unemployed, willing and looking for employment.

### What are the Causes of Low Employment in India?

#### ▪ **Absence of Formal and Quality Job:**

- The absence of formal, well-paid, and regular employment **inhibits the expansion of India's middle class**, unlike China's growth model.
- Lack of quality jobs leads to over-qualified youth competing for limited job openings, raising concerns about claims of strong economic growth.

#### ▪ **Social Factors:**

- In India, the caste system is prevalent. The work is **prohibited for specific castes in some areas**.
- In big joint families having big business, many such persons will be available who **do not do any work** and depend on the joint income of the family.

#### ▪ **Dominance of Agriculture:**

- In India nearly half of the **workforce is dependent on Agriculture**. However, Agriculture is underdeveloped in India. Also, it provides seasonal employment.

#### ▪ **Fall Small industries:**

- The industrial development had **adverse effects on cottage and small industries**.
- The production of cottage industries began to fall and many artisans became unemployed.

#### ▪ **Limitations in Education System:**

- Jobs in the capitalist **world have become highly specialized** but India's education system **does not provide the right training** and specialization needed for these jobs.
- Thus, many people who are willing to work become unemployed **due to lack of skills**.

### How are the Rights of Labour Protected in India?

#### ▪ **Constitutional Framework:**

- Under the Constitution of India, **Labour as a subject is in the Concurrent List** and, therefore, both the Central and the State governments are competent to enact legislations subject to certain matters being reserved for the Centre.

#### ▪ **Judicial Interpretation:**

- In the case of **Randhir Singh vs Union of India**, the Supreme Court stated that **"Even though the principle of 'Equal pay for Equal work'** is not defined in the Constitution of India, it is a goal which is to be achieved through Article **14,16 and 39 (c)** of the Constitution of India.

#### ▪ **Legislative Framework:**

- There have been several legislative and administrative initiatives taken by the government

to improve working conditions and simplify labour laws. Most recent is the **consolidated sets of 4 labour codes.**

- [Code of Wages, 2019](#)
- [Industrial Relations Code, 2020](#)
- [Social Security Code, 2020](#)
- [Occupational Safety, Health and Working Conditions Code, 2020.](#)

## What are Government's Initiatives to Curb Unemployment?

- [Support for Marginalized Individuals for Livelihood and Enterprise \(SMILE\)](#)
- [PM-DAKSH \(Pradhan Mantri Dakshta Aur Kushalta Sampann Hitgrahi\)](#)
- [Mahatma Gandhi National Rural Employment Guarantee Act \(MGNREGA\)](#)
- [Pradhan Mantri Kaushal Vikas Yojana \(PMKVY\)](#)
- [Start Up India Scheme](#)
- [Rozgar Mela](#)

## Way Forward

- Relying on a single data source, like the EPF, overlooks the complexity of India's labor market. Comprehensive labor statistics, like the **PLFS, provide a more accurate picture** and call for urgent policy interventions to address the jobs crisis in the country.
- The formal job crisis in India **requires a multi-faceted approach** to address the underlying issues and create a conducive environment for formal employment generation.
- There is a need to encourage industries that have a **higher labor intensity**, such as manufacturing and certain services, to create more formal job opportunities and reduce reliance on informal sectors.
- There is a need to Investing in skill development programs that align with industry demands can enhance the employability of the workforce and lead to better-quality formal jobs.

## UPSC Civil Services Examination, Previous Year Question (PYQ)

### **Mains**

**Q.** How globalization has led to the reduction of employment in the formal sector of the Indian economy? Is increased informalization detrimental to the development of the country? **(2016)**