Self-employed Workers in India*

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Well over half of all workers in India are self-employed. The proportions of self-employed workers are significantly higher in rural areas, and among women. In rural areas, it is presumed that it is the dominance of small-scale agriculture that leads to more self-employment, but in fact self-employed workers are around half of those engaged in non-agricultural employment as well. Even in urban areas, those working without any defined employer account for around two-fifths of male workers and more than one-third of the proportion of women in some form of paid employment.

Remember that self-employment in most cases in India (other than in farming, some small family enterprises and skilled professionals able to work on their own terms) is rarely a choice. Rather, it reflects the absence of good quality paid employment, or in extreme situations, the lack of any paid employment at all.

This is because such work is typically difficult, risky and low-paid. Self-employed workers bear all the risks of production, including relative price movements and changes in market conditions. They are also responsible for their own safety at work. They have to deal with a generally oppressive state at different levels, and often pay extra to local officials simply to function. Small and micro enterprises usually also find it extremely hard to access credit and have to procure inputs on less favourable terms.

As became particularly evident during the Covid-19 pandemic, they also lack any form of social protection, other than various "universal" provisions provided by governments at central and state levels. The most obvious protection is for those covered under the National Food Security Act, who received some free food rations—but even this did not cover tens of millions of such workers and their families. The lack of any compensating transfers from governments during the period of huge social and economic upheaval and distress was therefore especially devastating for self-employed workers.

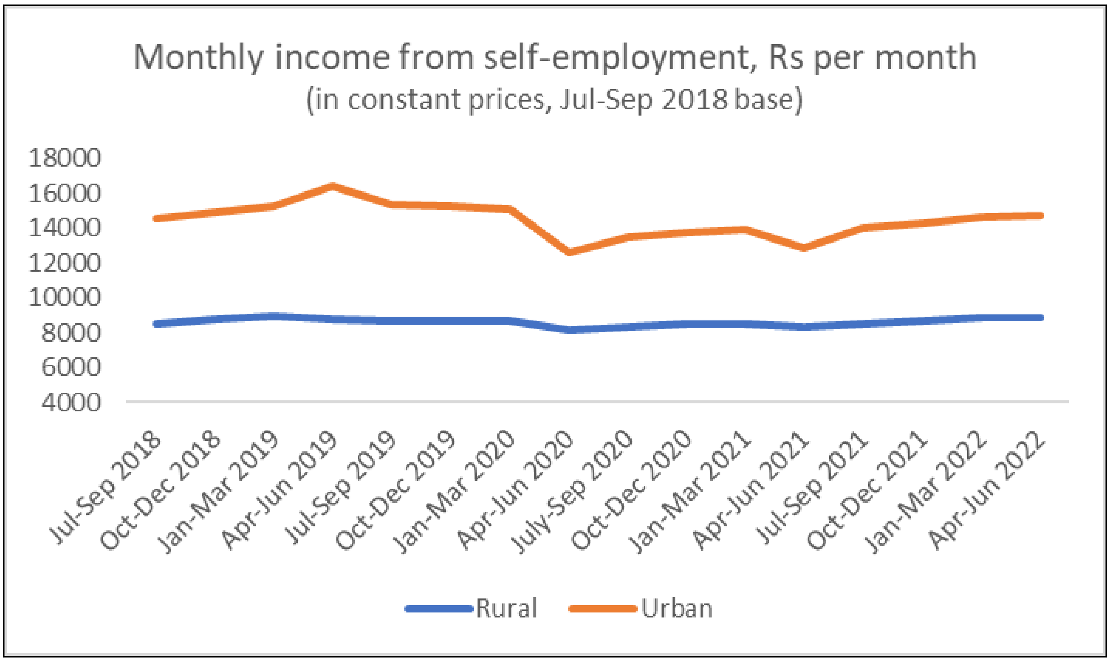
This also means that the incomes they earn from their work are absolutely critical in ensuring anything close to a minimally decent existence. Yet remuneration from self-employment, on average, tends to be even lower than that from salaried or wage employment. This makes is a matter of great concern that remuneration from self-employment has not just stagnated but even declined over the past three years.

In a previous edition of MacroScan (BusinessLine 6 March 2023) we had examined trends in real wages of casual workers in rural and urban India and found that these wages had started declining before the Covid-19 pandemic. Obviously, they then fell sharply during the pandemic—and since then they have recovered only slightly. Quarterly average wages in April-June 2022 were only slightly above the pre-pandemic peak.

Unfortunately, the story is even worse for self-employed workers. (As was done for wages of casual workers, in Figures 1-3, the money incomes data taken from the Periodic Labour Force Surveys have been deflated by the CPI for rural and urban workers, respectively, to arrive at real wages in terms of the base of July-September 2018.)

Figure 1 shows that real remuneration from self-employment peaked in April-June 2019, and started falling thereafter—well before any pandemic-related economic disruptions. The pandemic and the lockdowns did lead to sharp declines in such incomes, particularly in urban India, where they fell by 20 per cent in April-June 2020 compared to the previous quarter, and were 30 per cent below the earlier peak. What is more, the recovery since then has not led to achieving the earlier levels. In April-June 2022, real remuneration of urban self-employed workers was still 11 per cent lower than in April-June 2019. In other words, self-employed workers in urban India in mid-2022 on average were earning significantly less than they had earned three years earlier!

Figure 1



Source for all figures: Periodic Labour Force Surveys, NSSO, deflated by CPI (rural and urban).

In rural India, remuneration of self-employed workers peaked in January-March 2019. Note that rural earnings from self-employment are significantly lower than in urban areas, with a gap of around 40 per cent between the two. Even these abysmally low incomes fell further during the first lockdown phase, falling by 7.5 per cent from the previous quarter, and by 11 per cent compared to the previous peak. By the most recent period for which data are available, April-June 2022, incomes from self-employment in rural India were on average still 2 per cent lower than they had been more than two years earlier. This, despite the much-vaunted increase in agricultural output that has been hailed as an indicator of India's economic resilience.

Figure 2

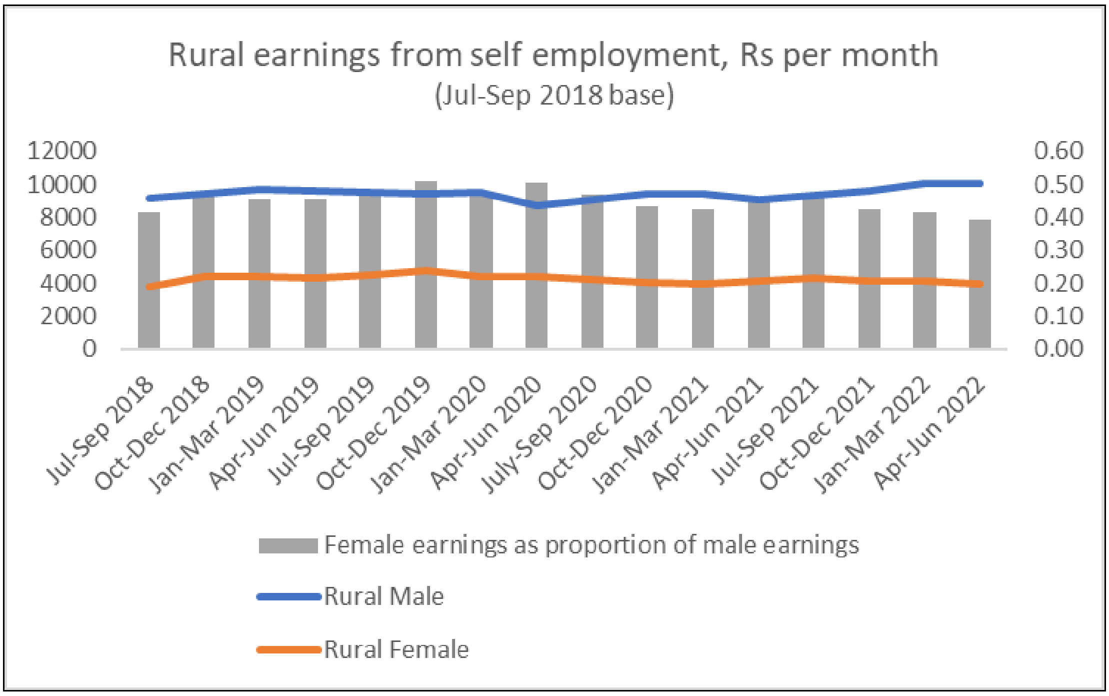
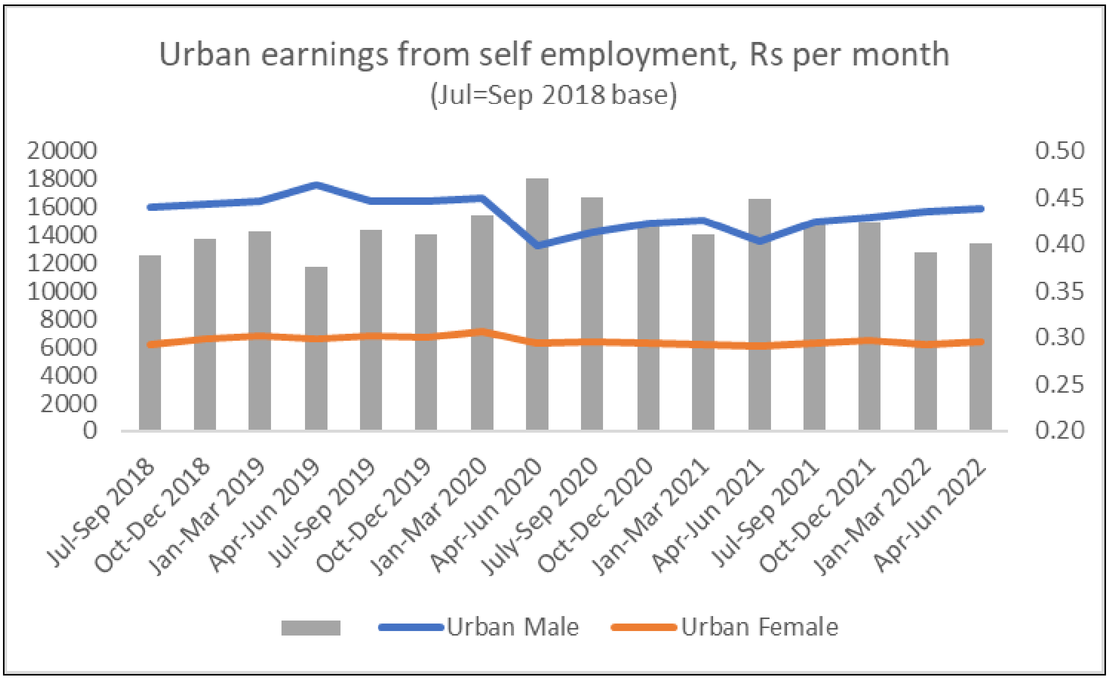


Figure 3



Figures 2 and 3 break up these earnings in rural and urban India by gender. The horrifying result is that the gender gap in workers' incomes—already one of the highest in the world in paid employment—turns out to be even greater for self-employment. And the gaps have actually increased even further in recent years. In rural India, women in self-employment have earned only around 45 per cent of what their male counterparts have earned. The ratio of women's earnings to men's earnings also fell sharply over this period, from a peak of 51 per cent in October-December 2019 to as low as 39 per cent in April-June 2022.

In urban India the situation of women self-employed workers is even worse. They have earned on average less than 42 per cent of what men workers earned per month. Once again, matters deteriorated over this period, with the ratio of women's earnings to men's earnings falling from 47 per cent in April-June 2020 (a peak only reflecting the bigger fall in men's incomes in that lockdown quarter) to less than 40 per cent in April-June 2022.

All of this is clearly depressing in its own terms, but it also suggests a very different picture of the Indian economy from that presented in official handouts and in the superficial but glowing estimates of some global business media. An economy cannot be booming if the majority of its recognised workers are facing lower wages and worse conditions. Sharp increases in economic inequality may conceal these tendencies in the aggregate macroeconomic data for a while, but eventually this stagnation or deterioration of workers' incomes, which necessarily implies lower mass consumption demand, must also affect economic activity and investment. It is unfortunate that this most essential truth remains unrecognised by Indian policy makers.

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