



Labour Informality and Social Sustainability in India: Rethinking Economic Development Pathways

Arun Lal ¹, Dr. Monika Khanna ²

¹ Assistant Professor, Department of Economics, Bareilly College (M.J.P.R. University)
Bareilly, India

² Assistant Professor, Department of Economics, Government Raza P.G. College Rampur,
India

Abstract- Labour informality forms a key structural element in the Indian economy and has significant implications for societal equity, labour's economic security and the employment situation. Despite decades of continuous economic growth, a significant percentage of the Indian population has not yet been included in the official structures of law and social protection programs. Informal employment hinders more general goals of inclusive and sustainable development, given its link with precarious labour arrangements, low productivity, economic precariousness, and lack of institutional protection. This study uses the social sustainability conceptual framework to critically examine the extent, antecedents and socioeconomic consequences of informality of labour in the Indian context. It argues that deep-rooted inequities related to gender, caste and regional disparities and structural dualism in the labour market have not been adequately addressed by mainstream, growth-oriented development paradigms. The study uses qualitative and analytical methodology to analyse the relationship between informal employment and social sustainability impacts such as income distribution, social protection coverage, and developmental indicators. Qualitative and descriptive form of analysis are used, based on secondary data, consisting of the Periodic Labour Force Survey, the National Sample Survey, and the relevant foreign policy documentation. The findings suggest that informality is a systemic characteristic that is embedded within institutional and economic processes and is not a transient phenomenon. The study calls for changing the developmental trajectories to include gender-inclusive employment policies, universal social protection floors, skill development and labour formalization as basic pillars of sustainable growth. To accomplish equality, resilience and sustainable socio-economic development in India, it is important to align macroeconomic growth with the principles of decent work.

Keywords: Labour Informality, Informal Employment, Social Sustainability, Decent Work, Social Protection, Gender Inequality.

JEL Classification Codes: J21, J46, J48, O17, O15, I38.

I. Introduction

The informality of labour is one of the most glaring structural features in the Indian economy. The recent employment predictions show that roughly 80-90 percent of the workforce in India is occupied in informal setups (ILO, 2018) (NSO, 2023). The informal labour is generally described as the labour that is carried out not under the regulations of the law and includes employment that lacks either social protection or stable employment, or even formal contract. Traditionally, most Indian workers have been located at the informal sector especially in the retail trade, construction, domestic services, and agriculture. This preponderance extends beyond economy statistics to structural deep-rooted factors, which mediate social inclusion tendencies, mediating access to basic rights and mediating lived experiences. The strength of informal labour of India can hardly be described in short strokes. The economy started to grow at a high rate in the 1990s that transformed some of the industries, boosted the exports, and



favorable urban growth that relied on services. Still, this growth did not cause a similar increase in formal employment. Since the liberalization of the economy, the gross domestic product of India has grown rapidly, but the employment level in the formal sector has not grown (Kannan & Raveendran, 2009). According to the developmental angle, employment is also a fundamental measure of human competency, dignity, and social engagement and not a strictly economic measure of productivity or income. Employment ought to be theorized as an empowering state that increases substantive liberties of individuals -the material capabilities to enjoy the lives they appreciate, which is in line with the Amartya Sen capability approach that is presented in Development as Freedom (Sen, 1999). The effect of the informality is that it creates the structural vulnerabilities, perpetuates the economic inequality, and limits access to the welfare systems, which pose threats to the social sustainability.

The book of Guy Standing titled *The Precariat: The New Dangerous Class* (Standing, 2011) gives the idea that the emergence of precarious and informal jobs has created a new type of class called the precariat, with low incomes, uncertain employment status, absence of professional identity, and social protection. The objective of the paper is to discuss why informal labour persists in the wider context of the definition of social sustainability as a multi-faceted concept that implies the perseverance of an inclusive and equitable social structure that can support human development and dignity, as well as general welfare. The concept of social sustainability is strictly connected with the working conditions and does not confine itself to particular economic measures but rather includes the aspects of social protection, decent work, education, and health care.

II. Research Objectives

- To examine the trends and scope of informal labour in India, with an emphasis on its sectoral distribution, employment conditions, and demographics.
- To examine the institutional structures, labour market dynamics, policy frameworks, and socio-cultural factors that contribute to labour informality.
- To evaluate the socio-economic effects of informal work, with a focus on how it affects social protection, financial security, labour rights, and general social sustainability.
- To suggest institutional and policy changes that would encourage labour formalization and support an inclusive and equitable model of economic development in India.

III. Methodology

The research has a qualitative and descriptive research design, with secondary data analysis mainly, in the study in order to determine labour informality, and the implication of labour informality to social sustainability in India. The main sources of data will be the Periodic Labour Force Survey (PLFS) 2023 of the National Statistical Office (NSO, 2023), reports published by the National Commission for Enterprises in the Unorganised Sector (National Commission for Enterprises in the Unorganised Sector(NCEUS), 2007), and statistical and policy publications of the International Labour Organization (ILO, 2015) Other world development views are based on the reports of the World Bank World Development (World Bank, 2022). These data sets



and reports offer detailed data on employment patterns, the labour market, and finer institutional frameworks that define informality. It aims at creating a subtle interpretation of the effects of labour informality on the results of social sustainability and to establish policy directions on how to achieve more inclusive labour-market regulation.

IV. Theoretical Perspectives On Informality And Social Sustainability

The definition of Labour Informality

Labour informality is the form of work that is not aligned to formal contractual requirements, social insurance schemes, or labour requirements that are governed by the state. It includes homework, casual wage labour, self-employment without the registration of an enterprise, and small unregistered enterprises. Generally, the informal workers do not have access to collective bargaining, paid holidays/leaves, pensions, workplace protection and job security.

There are two major theoretical approaches that have been used to conceptualize informality: Dualist (Structural) Perspective: This is the viewpoint in which informality is in existence alongside formal economic activity, which creates a bifurcated economy that is typified by high numbers of vulnerable labour force vis-a-vis smaller formal sector. Informality is generally seen as a structural issue that is caused by the inability to access institutions, finance, and technology. (Sanyal, 2007) asserts that informality develops when significant portions of the labour population are still shut out of contemporary capitalist production and are forced to pursue low-productivity informal employment.

Institutional/Legalist Viewpoint: This perspective stresses on the importance of the institution and laws citing that strict labour laws, onerous regulations, and high cost of compliance can prevent firms to formalize the employment thus increasing the informal sector. According to (Kanbur, 2017), companies and employees may choose to operate informally in order to evade taxes, labour laws, and the administrative obligations placed on them by official organisations.

V. Social Sustainability and Decent Work

The term social sustainability is described as the ability of the social set up to be just, coherent, and healthy in the long-term. It aims to raise the living standards of people, social incorporation, and resilience of persons and groups. One of the most important elements is decent work which the (ILO, 2018) has defined as productive employment, which offers a fair wage, security, social protection and at work rights. Labour arrangements and labour conditions in the emerging economies are factors that have a tremendous impact on the social sustainability outcome. The high rates of poverty, vulnerability and inequality are associated with informal labour because of its unpredictability and unguaranteed. This, in turn, influences the health, education, intergenerational mobility, and their overall human development indices. To make sense of the correlation between labour informality and social sustainability, it is important to understand how the economic policies contribute to making or alleviating



precarious employment statuses. The traditional growth theories tend to give less importance to distributive and social aspects and give more importance to GDP growth and capital accumulation, a social sustainability paradigm puts work quality at the center of growth, with an emphasis on fair access to opportunities and rights. (ILO, 2015)

Informality and Structural Inequality

The caste, gender and geographic hierarchies in India are inherently associated with informality. Several studies have shown that women are overrepresented in low paying unstable occupations that are informal (ILO, 2018) (Unni, 2018). Similarly, discrimination along caste lines restricts the access to marginalized groups to both formal jobs and social mobility (Sukhadeo & Paul, 2007). The rural communities are still almost entirely dependent on informal jobs due to the lack of infrastructures and quality education, thus increasing spatial inequalities (World Bank, 2019). Therefore, informality is deep rooted in complicity systems of social exclusion, instead of as a by-product of economic marginalization. Unless these bigger inequalities are addressed, policies that draw only on the economic aspects of informality run the risk of perpetuating social division and unsustainable forms of development.

VI. Labour Informality In India: Empirical Realities

Unorganised sector forms a majority of the employment market in India. Recent employment surveys reveal that approximately 80 to 90 percent of the labour force is working in informal contexts and includes paid work as well as informal self-employment. (NSO, 2023) (ILO, 2018). Agriculture, construction, retail trade, personal services and domestic jobs are areas in which informality is the most widespread. A significant percentage of the population, which has few chances of moving to the government jobs, are working in these sectors. (National Commission for Enterprises in the Unorganised Sector (NCEUS), 2007) The urbanization process and demographic change have increased the prevalence of informal work. The city economies have remained informal in construction, transport, street selling, and household services despite the fact that urbanization is expected to have formal job creation by growing industrial and service sectors (Kanbur, 2017) (World Bank, 2019). Employment in the rural areas, on the contrary, is seasonal and strongly dependent on agriculture and the unorganised rural non-farm labour.

Informal employment is mostly linked with low levels of productivity and income. The level of productivity in the informal business shows stagnation which is due to limited accessibility to capital, technology and market connections. (ILO, 2015) The informal labourers often have irregular working hours, incomes that are below living standards and they are not paid overtime. The unequal access to education and skills is also seen in their earnings gap between the formal and informal sectors. Jobs in the state sector can require professional education and technical competency, which is unavailable to a large proportion of the unorganised. (Standing, 2011) Stagnation in wages in informal job puts financial stability in households at risk and continues the cycle of poverty.

The social security benefits that are traditionally related to the traditional employment arrangements are still largely inaccessible to informal employees. These include



maternity benefits, health cover, unemployment compensation and pensions. (ILO, 2018) The social welfare programmes practiced in India are numerous with the Public Distribution System (PDS), rural employment guarantee schemes, and scheme-based health insurance programs; but there are gaps in coverage especially in urban informal environments. These vulnerabilities were faced by millions of informal workers who faced loss of jobs, economic hardship, and reduced access to social safety nets during the COVID -19 pandemic. (World Bank, 2022) The crisis highlighted the necessity of re-evaluating the institutional settings to provide the means of protection that should go past the formal occupation limits.

Policies that are gender responsive should be implemented to acknowledge unpaid care work, increase access to childcare and reskills programmes, and remove barriers that cannot allow women to participate in quality employment at the same level as men. In India, the labour participation of women has remained largely at levels that are significantly lower than global norms, and the number of them who do receive jobs is found in low-wage, informal, and unpaid caregiving roles, as well as family businesses. (ILO, 2018) (Unni, 2018)

VII. Rethinking Development Pathways For Social Sustainability

Labour Law Reforms

The four main areas of labour legislation into which India has incorporated clauses of many major legislations in recent years are wages, industrial relations, social security and occupational safety and health. The champions contend that these amendments increase corporate trust, formalization and ease compliance. Critics have argued that the flexibility clauses can undermine the protection of workers and do not provide adequate protection to the informally employed workers. As part of the acknowledgement of new forms of informality, the labour laws provide mechanisms to apply social security to gig and platform workers, but these would need strong administrative frameworks, funding plans, and all-encompassing registration processes.

Social Protection Initiatives

India has adopted various social welfare programs in order to mitigate vulnerability. Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) provides a minimum rate of employment of rural households. Ayushman Bharat and other schemes of public health insurance can improve the accessibility of health to low-income households. Major disparities in portability, adequacy, and inclusivity are noted even with increased coverage; e.g., most urban informal workers are not covered by rural based programmed and service delivery is not standardized across all states.

Skill Development and Education

Skill-development programs such as the National Skill Development Mission are designed to reduce the gap between the labour-force skills and the market requirements. Fitting into the industrial demand, ensuring quality and fair access by the marginalized groups are still a challenge despite the possibility of increasing the apprenticeship and vocational education pathways to improve the chances of getting formal jobs.



MSME Support and Formalization Incentives

Micro, Small and Medium Enterprises (MSMEs) are the important employers in India, which tend to operate informally because of financial limitations and regulatory obstacles. Better labour quality and business efficiency can be achieved by encouraging formal registration using tax incentives, eased compliance and easy procurement of credit.

VIII. Rethinking Development Pathways For Social Sustainability

Centering Labour Formalization in Development Strategy

Labour Formalization as a Centre of the Development Strategy. The concept of formalization should also be redefined as a planned growth target and not an outcome of economic growth so that labour informality can be tackled effectively. This would require the alignment of economic planning to social goals, which would include inclusion, equity, and good labour governance.

An integrated strategy involves universal social provision of social protection in all employees, such as health insurance, income support and pensions, regardless of whether they are formally employed or not, as part of wide programmes of social-protection. The governments are advised to provide financial incentives in the event of a transition, lower compliance costs to small businesses and provide incentives to improve the quality of jobs to promote formalization. The rights of the workers and their adherence through improving access to quality foundational education and vocational training through inclusive education and skills ecosystems with special attention to women, planned castes and tribes, and disadvantaged areas can be secured by means of increasing the powerfulness of the inspection mechanisms, procedural matters of dispute resolution, and rights to collective bargaining.

Addressing Structural Inequalities

Economic strategies are supposed to incorporate social equality as one of the keywords of sustainable development. This entails promotion of gender-transformative labour laws that acknowledge unpaid care giving and proactively support the access of women into the labour force. Exclusion due to caste and community can be overcome through the implementation of skill programmes and focused affirmative action in official job fields. Decentralization, digital inclusion, as well as infrastructural development of bridging the rural-urban divide will also support equitable growth.

Innovation and Technology in Formalization

Technology and digital platforms can help with skill development, benefit accessibility, and worker registration. For example, e-learning programs can increase skill dissemination, and digital labor registers can streamline official enrollment. However, caution must be made to prevent technology solutions from exacerbating digital gaps.

IX. Conclusion

The situation of labor informality in India is a complex process that has been influenced by structural inequalities, contingencies of the past and the macroeconomic dynamics. The inability of informal jobs to end highlights the shortcomings of growth-related



development models that ignore labour equality and social justice, despite the fact that macroeconomic growth attained along the India growth path has been substantive. Informality requires a critical paradigm shift in the thinking in development beyond the usual measures of productivity towards an inclusive approach that puts equitable opportunity, strong social protection, and decent employment at the core. Formalization mandates detailed policy frameworks which secure universal rights to social protection, integrate labour rights with economic targets and actively break down established divisions concerning gender, caste and geographical inequalities.

These changes cannot be realized via a series of individual accommodations, but rather they have to be a mutual efforts of state level innovation and community involvement and national policy efforts. The private sector and labour organisations, as well as the civil sector, cannot be ignored on the way to the collaborative solutions that can improve the jobs quality and increase the number of protective measures. The rethinking of the development pathways in India makes the search of social sustainability an active necessity towards the development of inclusive and resilient growth, and not an optional moral dream. India can turn informality as a chronic predicament to an engine of equitable development by putting in place policies that predetermine the formalization of labour and human development.

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