

City of dreams no more, a year on

Worklessness and active labour market policies in urban India



In brief

- Ten months on from the lockdown months of April to June 2020 in India, we conducted a new field survey in lower-income states of Bihar, Jharkhand and Uttar Pradesh during February and March 2021.
- The new survey expanded coverage of the target group through a boost sample of individuals who have lost work due to the pandemic.
- Forty percent of recontacted workers had no work or pay. Younger individuals, in the bottom half of pre-COVID earnings, experienced higher levels of worklessness.
- The new survey finds urban individuals have been unemployed for the last six months on average. The share of employed individuals who had a full year's work has halved since the previous year.
- The survey elicited views of urban individuals on policies that would help alleviate their livelihood crisis. A large majority, 85%, prefer an urban job guarantee to other policy options, such as cash transfers or hiring incentives, to reduce worklessness and livelihood insecurity in their areas.
- Government work programmes, such as state insurance and provident funds, are barely reaching low-income urban areas. Less than 1% of the respondents had access to these government benefits.

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Overview

Across the world, COVID-19 has put urban areas at the frontlines of the pandemic and the livelihood crisis arising from it. Many countries have responded with income and job support programmes to protect workers and support recovery. India has a large informal workforce, and our previous report highlighted that the pandemic ravaged urban livelihoods.

To understand the microeconomic impacts of the pandemic, the Centre for Economic Performance (CEP) conducted a survey of a random sample of more than 8,500 workers in urban India aged 18 to 40 from May to July 2020, which included a phone survey of 5,500 individuals from field visits in three low-income states of Bihar, Jharkhand and Uttar Pradesh. The second survey from January to March 2021 recontacted over 3,200 of the first survey respondents from these states, where the situation had been dire during the first lockdown. It also expanded coverage to a door-to-door survey in these areas with a boost sample of over 1,500 unemployed individuals who lost work since the pandemic.

The first survey showed that, as in many countries, unemployment increased dramatically in India under the first wave of COVID-19, and financial assistance from the government or employers was unavailable to most of the workforce. While the economic situation improved by 2021, a stark finding of this new report is that the longer-term livelihood impacts of the pandemic are already evident. Ten months on from the first wave lockdown in April-June 2020, 40% of recontacted individuals, who were all employed before the pandemic, had no work or no pay. Some of them have even stopped looking for a job. Younger individuals, at the bottom half of pre-COVID earnings, are doing worse with higher shares of no work or no pay.

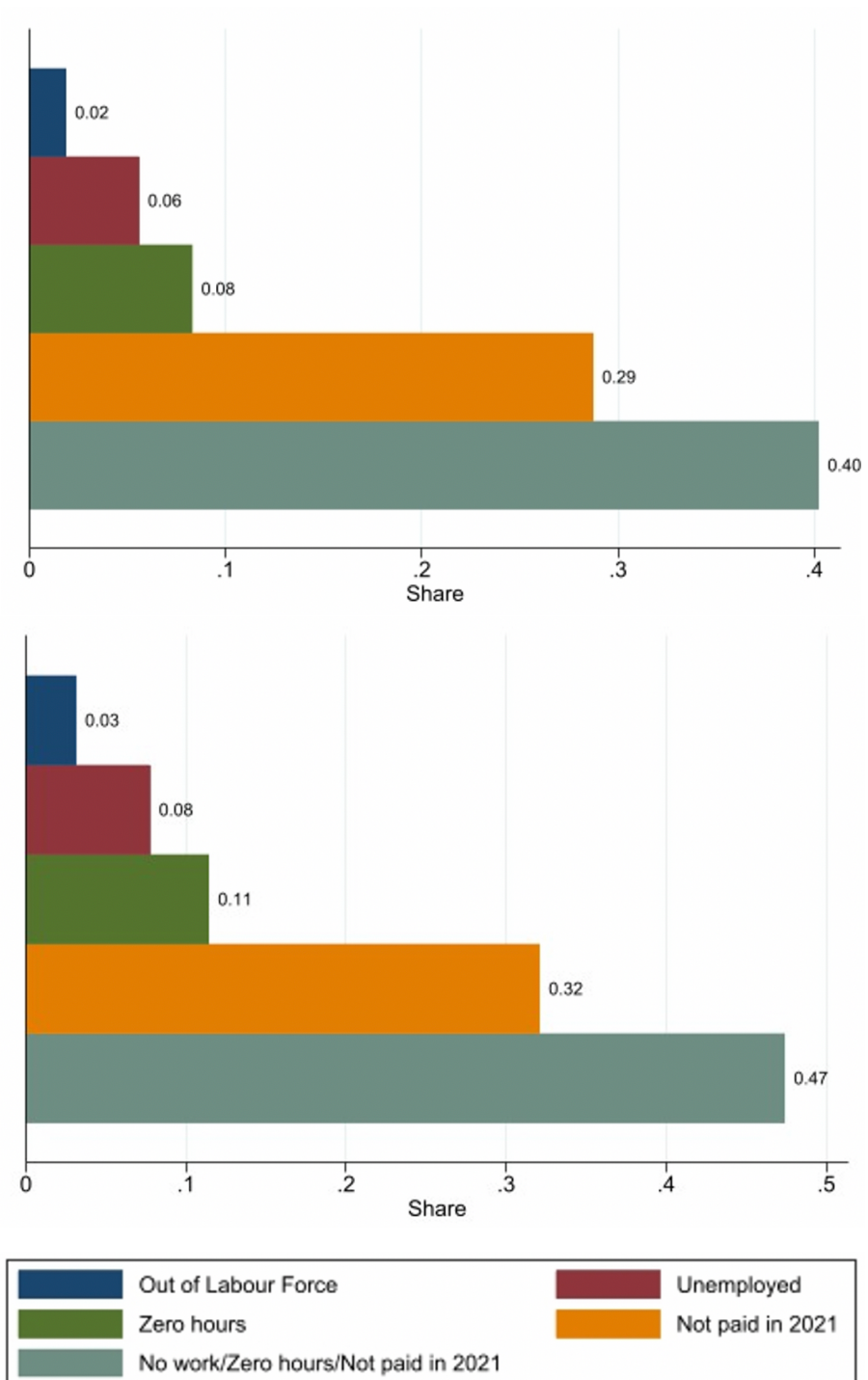
A second new finding is that urban unemployed individuals have already been out of work for the last six months on average. With the second wave leading to further unemployment and an extended period of worklessness, urban unemployed individuals are getting close to being in the severe risk category for long-term unemployment (9-11 months) or actual long-term unemployment (12 months or more).

Research questions and survey findings

1. What were the impacts of COVID-19 on employment, hours of work, and earnings?

The first quarter of 2021 showed improved employment outcomes compared to the lockdown months, but the labour market remains far from recovery. Ten months after the first lockdown and before the second wave of the pandemic, 6% of the recontacted individuals were unemployed, 8% had worked zero hours, and another 2% had dropped out of the labour force and were no longer looking for work. Twenty-nine percent of respondents had not had any pay in 2021, bringing the share of those who had no work or no pay to 40%.

Fig 1. Labour force status of individuals who were employed pre-COVID, full sample of recontacted individuals in the top panel, below median of pre-COVID earnings and 18-25 years old in the bottom panel.



2. Is COVID-19 causing long-term unemployment among urban workers?

The worry we highlighted in the first survey of the risk of long-term unemployment for young urban individuals is getting realised as the crisis progresses. Those who were unemployed at the time of the new survey had been unemployed and searching for work for 5.84 months on average, pointing to an emerging longer-term unemployment crisis. Younger workers in the lower half of pre-COVID earnings are slightly more likely to look for work. Their unemployment spells, however, have been longer, putting them at heightened risk of long-term unemployment.

Short spells of employment are likely to have been the norm in 2020-21, as only 33% of the sample reported working over 40 weeks in the twelve months preceding the survey, compared to 85% who reported working 40 weeks or more before the pandemic. Young workers with below-median pre-COVID earnings have fallen further behind. They are less likely to be employed for the entire year, and the share of them with forty or more weeks of work in the twelve months preceding the survey has fallen further to 28% from a much higher 75%.

Fig 2: Months been searching for work for unemployed individuals, by pre-COVID earnings and age group

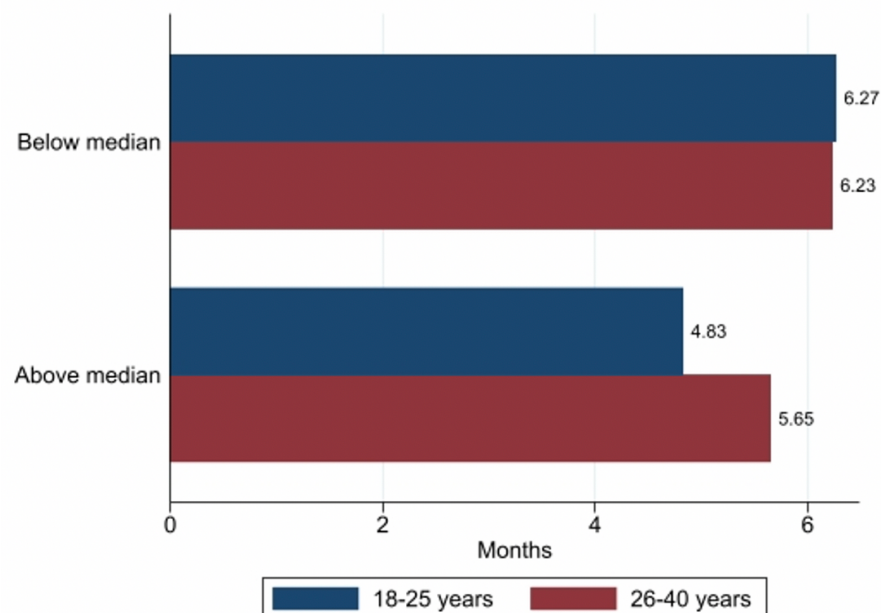
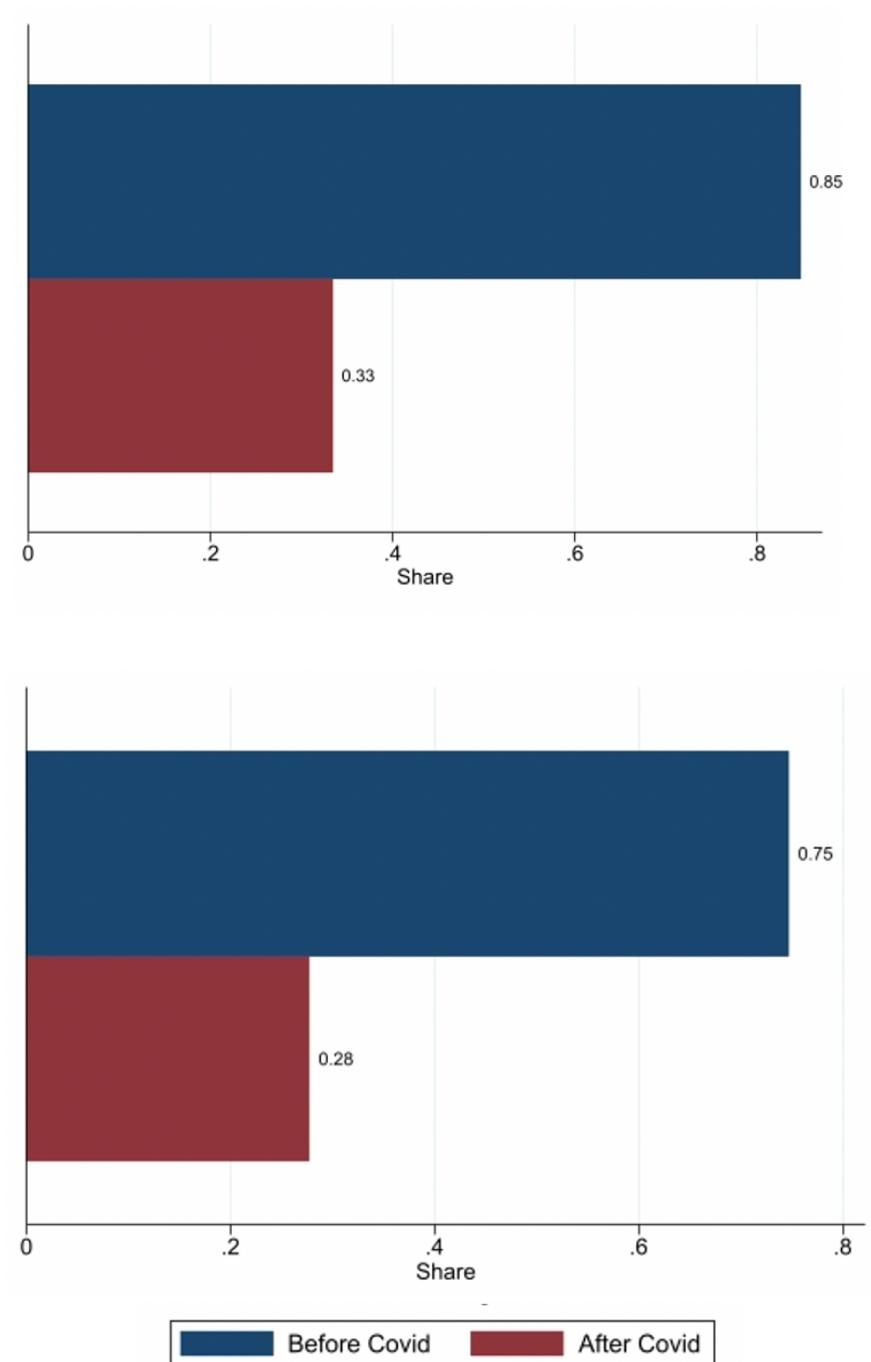


Fig 3: Share of employed individuals that worked 40 weeks or more, full sample in the top panel, below median of pre-COVID earnings and 18-25 years old in the bottom panel.



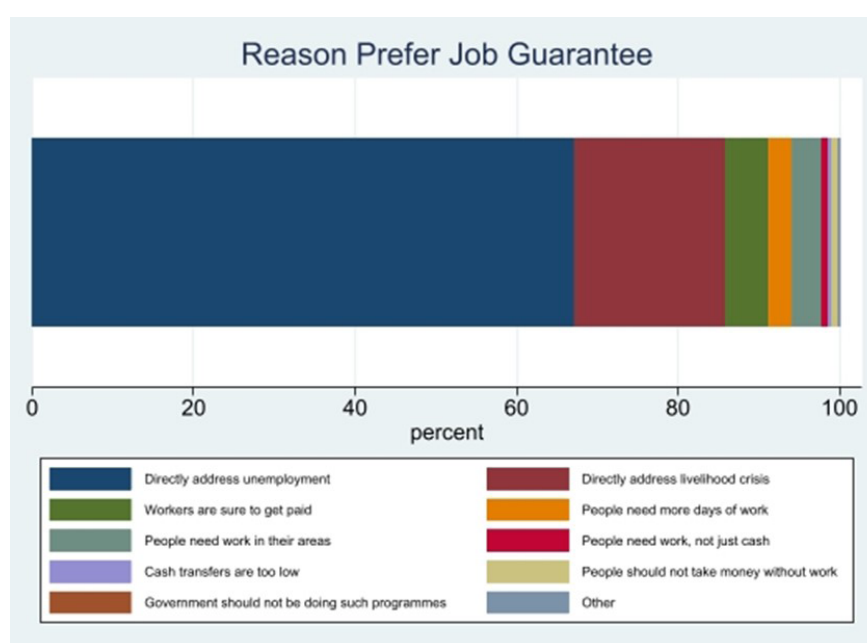
3. Which labour market policies would help urban workers cope with the negative impacts of COVID-19?

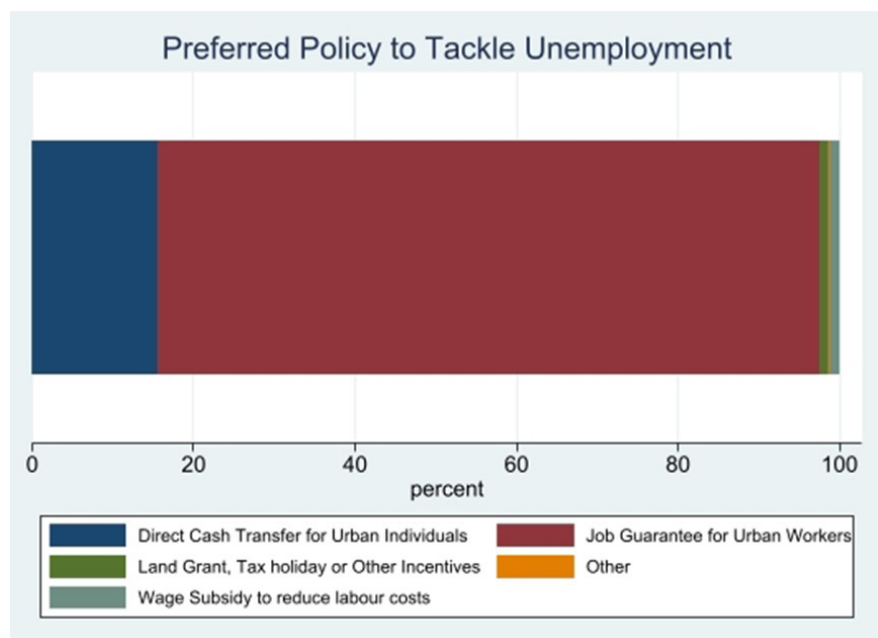
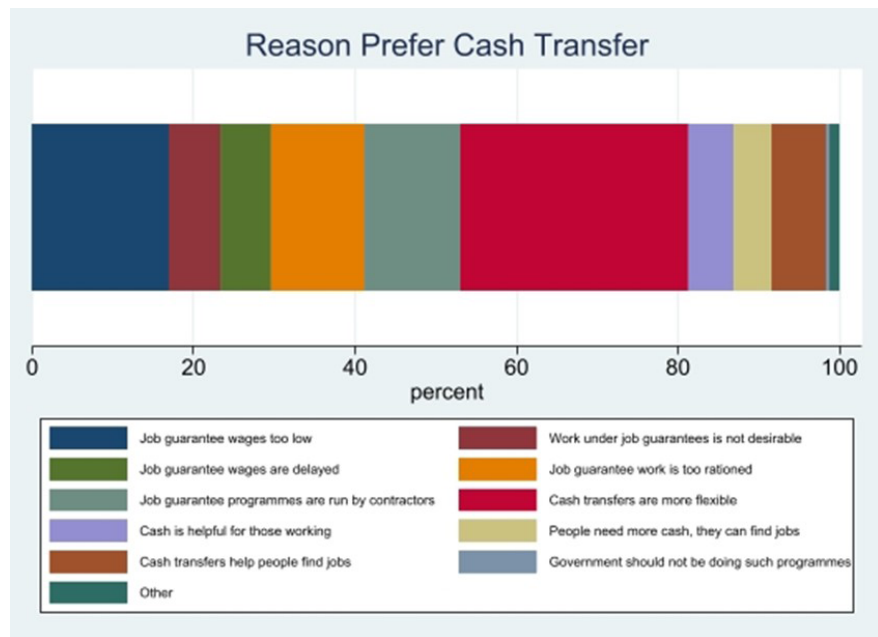
We asked respondents about their views on the role of government in improving labour market conditions and unemployment. Eighty-two percent of the respondents think that job guarantee programs would be the most effective in solving the problem of unemployment in urban areas, followed by cash transfers (16%), wage subsidies (1%), land grant and tax holidays (1%), and others (0.1%).

When choosing between a job guarantee and a cash transfer, 84.5% prefer a job guarantee. 86% of those who would want a job guarantee over a cash transfer would like to work for a government-run programme instead of a private company (9%) or a job contractor (4%). Cash in hand and bank transfers are preferred to other modes of payment like cheques, pay orders or online payments. Again, younger individuals show very similar policy preferences for a job guarantee as older cohorts.

Social safety nets continue to be out of the reach of informal workers in low-income urban areas. Only twelve individuals (out of 4763) had an account with the Employees' State Insurance Corporation (ESIC) or the Employees' Provide Fund Organisation (EPFO), despite their expanded coverage to provide a safety net outside of formal employment.

Fig 4: Labour market policy preferences of urban individuals





Policy recommendations

1. There is a high demand for labour market institutions among urban workers.

The vast majority of individuals would like a job guarantee, and most of them prefer it over a cash transfer because it would directly address the lack of work and livelihood insecurity. Other reasons include certainty of government payments, local work opportunities and more days of work.

The Government of India has made paltry increases in wages under the rural job guarantee, and there have also been concerns over job rationing. This seems to be reflected in some individuals preferring cash transfers

due to the low earning potential of job guarantees from low wages and rationing. The role of contractors in job guarantees also contributes to some individuals preferring a cash transfer.

2. Minimum wage is a viable policy option that could improve labour market outcomes of the urban poor.

The survey elicited views on the minimum wage, which has recently seen new nationwide legislation in India. Forty percent of the respondents reported knowing their state minimum wage level. Over a majority of the respondents who know the minimum wage level think that it is too low. While the strength of opinions over the minimum wage level differs by employment status and being paid at the minimum wage level, there is a clear slant towards the state minimum wage levels being considered to be at the lower end. Younger individuals are more concerned that the minimum wage level is too low.

3. Active labour market policies are crucial to save livelihoods.

The debate on urban job guarantees is far from over, and existing active labour market policies will need a substantial increase in scope to help alleviate the deep worklessness crisis that is unravelling (see Dreze 2020 on Ideas for India and related contributions). As the country comes out of a second vicious wave of the pandemic, lives and livelihoods are again imperilled, and the economic hardship of already suffering workers has exacerbated. Lockdowns are necessary to save lives from the pandemic. Following up with active labour market policies is also imperative to protect livelihoods in the aftermath. A national-level commitment to providing job opportunities and a safety net would help prevent a lost generation of young workers from falling into long-term unemployment and the ills that accompany it.