

# **Exploring the Dynamics of Work Preferences in India:**

How much of a choice do Indians have  
between Formal and Informal Jobs?

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# Abstract

It is a well-known fact that a resounding majority of Indians work in the Informal sector. This goes against the prediction made decades ago that people all round the world would eventually switch to formal employment, which is relatively easy to track and regulate. However, the developing countries, especially India, show an opposing trend that potentially reshapes the way work is regulated and defined.

This study aims to explore the defining factors that push Indians towards a particular kind of work. It is done through analyzing the worker characteristics against their choice of work, or the work they end up in. A Multinomial Logit Regression Model is used to study the aforementioned correlation with work category as the dependant variable. The findings show a pattern of preferring formal jobs with specific benefits as the education level of a person gets higher. This result was observed in both the urban and rural populus.

The data used here is the labour force survey data that includes details about worker's characteristics, job type, wage, gender, and access to social security.

## Research Gap:

The literature surrounding workers focuses on the consequences of formal or informal work while there are relatively fewer attempts made to explore why a certain kind of work was chosen in the first place. Through labour survey data, we aim to see which worker characteristic reigns supreme when it comes to taking this choice.

Through this paper, the aim is to guide policy making and legal rules and regulations surrounding work contracts. The patterns observed here will highlight how much of a culprit is the 'system' and the extent of accountability that people must take on themselves.

## Introduction

The aftermath of COVID-19 in India has shown severe effects on security, health, and livelihood of informal workers, leading them to question why they opted for a job without social security benefits (Sumalatha et al. 2022). Additionally, being an Agrarian economy to begin with, India has had to deal with a transfer of people from agricultural sector to the non-agricultural sector, and most of those people end up doing informal work. This is true even in the case of the organized sector. Over half the workers are self-employed, largely with a poor asset base, and around 30 percent are casual labourers seeking employment on a regular basis (Banerjee, 2018).

Being one of the key emerging economies in the world, India has seen poor results when it comes to employment conditions. Wage differential on the basis of job contracts also hampers the development of the overall economy through rising income inequality (Kumar et al., 2021). These patterns might make one conclude that formal jobs should be the preferred destination for people. Instead, they have shown a steep decline in the last decade.

It is important to explore what makes people choose informalization amidst its rampant rise. While the aftermath of choosing a particular kind of job is explored thoroughly in present literature, the policy-makers also should take into account how people choose jobs. The presence of schemes like MNREGA have created a visible impact but a more holistic approach is needed if informality in India's case is to be understood.

MGNREGA's spillover effects have managed to significantly alter the percentage of our population engaged in agricultural labour. This reinforces the dynamic impact a policy can have. The goal of this research is to contribute to further research on the degree of choice with the people as well as policy recommendations to create an environment where making the choice is more accessible.

## **Defining Informal and Formal Work in India**

The formal sector in India is a form of employment that is recognized, recorded, as well as protected under labour laws and regulations. As per the National Sample Survey Office, 'Regular Salaried or wage employment in a formal sector establishment with access to social security benefits and compliance with labour regulations' is defined as formal employment. The Ministry of Labour and Employment further adds that formal jobs are recognized by the government, include social security benefits, and comply with Statutory labour law.

The broad pre-requisites of formal work as defined by the International Labour Organization are formal contracts, regular wages, social security benefits, and adherence to labour rights.

At a global level, the informal sector and the unorganized sector are used interchangeably when it comes to labour and markets. It was in 1972, that the world first saw the usage of the term - 'informal sector' by the International Labour organization (ILO). Soon enough, in an International Conference of Labour Statisticians, conducted by the ILO, an attempt was made to set a global standard definition to the concept of informal and formal workers, based on characteristics of the enterprise they work in. This received criticism for not involving the nature of the jobs, but focusing on the enterprise. Finally, it was changed by the 17<sup>th</sup> International Conference of Labour Statisticians (ICLS) focusing on the nature of the job and not the enterprise.

The government of India made a National Commission on Enterprises in the Unorganized Sector (NCEUS) to look at various facets of what defines the informal economy. As per NCEUS (2007),

“Informal workers consist of those working in the unorganized enterprises or households, excluding regular workers with social security benefits, and the workers in the formal sector without any employment/social security benefits provided by the employers.”

The research will follow the above definition of formal and informal work.

# Literature Review

The literature focusing on the formal and informal work primarily takes a rights-based approach focusing on the challenges faced by the workers in various sectors as well as the social issues present in various categories of employment. The updated definition of informal employment gave rise to a deep dive into informality that exists in formal enterprises, i.e. jobs in formal sectors without the usual social security benefits.

There are multiple nuanced researches highlighting wage inequality between the formal and informal sector as well as within them. There were wage differences observed between the two types of employment due to discrimination rather than merit and opportunity (Kumar and Pandey, 2021). There is however a degree of inequality and poor quality of work when it comes to informal work in any kind of enterprise.

Three-fourths of the Indian workforce being employed in the informal sector give rise to an alarming notion of the government not having a clear picture of the quality of work and life that the majority are exposed to. (Rosa, A., 2017). The Post-Independence Indian labour policy has been marked by 'ineffective and counter-productive' labour laws which has resulted in the low road to growth characterised by lowering wages and labour standards rather than innovations in the betterment of a common citizen's work life (Chakraborty, 2015). This is why the economic growth in India has seen a constant perpetuation of existing inequalities (Sharma, 2016).

Some estimate that this excess of informality is policy-induced due to a heavy-industry first strategy along with reservation of products for small firms. This resulted in a boom of unregistered firms and informal labour, since the labour laws were only applicable to the organized and registered firms (Mehrotra, 2019). There has been however, a rising trend of organized firms after the introduction of GST as well as regular wage employment as compared to casual wage employment.

Additionally, there is a focus on the disparity of work condition and wages when it comes to gender. Women face harsh challenges in the informal sector due to no recognition of trade unions, low job security or satisfaction, no minimum decent wages act as well as no maternity or child benefit schemes (Mehta, A., Dang, D., 2022).

Governments have always maintained the assumption that more formal employment is the answer to the societal woes associated with informal employment. However, the story of developing nations, especially the South Asian Economies show a different dimension to this presumption. Majority of women and disadvantaged workers in these countries work in the informal economy and any government that wants to ensure social welfare should know that a crucial policy and documentation change is needed. This mandate of formalization has been again brought about by the rise of many existing economic institutions that were formed in the mid-20<sup>th</sup> century to mass-produce in industrialized economies, that are now obsolete (Chen, M.A., 2006).

# Methodology:

The research here is primarily investigating the determinants of the choice of taking up a formal or informal job and finally explore if there is a choice in the first place. Since the job choice was to be judged against various worker’s characteristics, most of them being categorical, a Multinomial Logit Model is used to analyse this relationship and further correlations. The dependant variable here is the type of job which is divided into certain categories. These categories include:

- Formal Job with Social Security Benefits
- Formal Job with Social Security Benefits, Job Contract
- Formal Job with Social Security Benefits, Job Contract, Paid Leave
- Informal Job
- Others

formal_benefits	Freq.	Percent	Cum.
Formal with Social Security Benefits	2690	0.00	0.00
Formal with Social Security Benefits Jo	97591504	9.16	9.16
Formal with Social Security Benefits Jo	38803817	3.64	12.80
Informal	461103850	43.28	56.08
Others	467881754	43.92	100.00
Total	1065383615	100.00	

For conducting the Multinomial Logit Regression, the fourth category, i.e. Informal Job, was chosen as the base category. This was done to assess the choice that people have in choosing a formal job and what are the characteristics that impacts that.

The independent variables explored here are the characteristics of the individuals in the labour force. These characteristics are in line with how they are categorized in the schedule of PLFS, with a few tweaks keeping in mind the objective of the study.

The categories include the following:

Sector- Rural – 1, Urban – 2) (Base Category- Rural)

Sex – Male-1, Female -2, Third Gender-3 (Base Category- Male)

Educational Level – In line with the schedule of PLFS, not literate -01, literate without formal schooling: EGS/ NFEC/ AEC -02, TLC -03, others -04; literate: below primary -05, primary -06, middle -07, secondary -08, higher secondary -10, diploma/certificate course -11, graduate - 12, postgraduate and above -13.

Marital Status- never married-1, currently married-2, widowed-3, divorced/separated-4. (Base Category- Never married)

These are weighed against annual weights to get more accurate results. Additionally, the base categories are chosen on the basis of having a higher number in order to yield better results.

Most of these variables are categorical variables and to best accommodate them in the analysis, a multinomial logit model was the most appropriate.

This analysis is undertaken to reveal the various nuances that might come to the surface with the attempt of a regression.

## **Data**

The data used here is from the Public Labour Force Survey covering 2017 and 2018. This is conducted by the National Statistics Office (NSO) under the Ministry of Statistics and Programme Implementation. The purpose of this survey is to identify the distribution of workers by industry, occupation, figure out indicators like the Labour Force Participation Rate (LFPR) and the Worker Population Ratio (WPR). By analysing employment and unemployment trends, this survey aims to inform policymaking.

A stratified multi-stage random sampling design is used to select sample households. Later, face-to-face interviews are conducted by trained enumerators using labelled and structured questionnaires. This survey is conducted quarterly to provide timely data on employment and unemployment. Finally, the data undergoes stringent processing and quality control before being disseminated.

The total individuals surveyed in the 2017-18 survey were approximately 666,224 with around 157,299 households.

# Results

VARIABLES	(1) Formal Jobs with Social Security Benefits	(2) Formal Job with Social Security and Job Contract	(3) Formal Job with Social Security, Job Contract, and Paid Leave	(4) Informal	(5) Others
2.Sector	17.26 (63.54)	0.928*** (0.000258)	1.106*** (0.000389)		0.461*** (0.000230)
2.Sex	-23.73 (2,086)	-2.295*** (0.000303)	-1.839*** (0.000435)		-0.875*** (0.000213)
3.Sex	-21.86 (148,993)	-0.217*** (0.00761)	0.160*** (0.0134)		-0.754*** (0.00804)
2.Marital_Status	13.72 (57.98)	-0.933*** (0.000308)	-0.786*** (0.000482)		-4.387*** (0.000238)
3.Marital_Status	-7.357 (5,856)	-0.440*** (0.000648)	0.0354*** (0.00108)		-2.138*** (0.000348)
4.Marital_Status	-8.538 (30,749)	0.234*** (0.00148)	0.320*** (0.00238)		-3.333*** (0.00157)
2.General_Education	-7.607 (670,899)	-0.351*** (0.00450)	1.248*** (0.00773)		0.412*** (0.00273)
3.General_Education	-6.778 (706,666)	0.175*** (0.00538)	-27.32 (17,650)		0.752*** (0.00349)
4.General_Education	-7.262 (301,743)	-0.106*** (0.00224)	0.230*** (0.00691)		0.258*** (0.00141)
5.General_Education	-7.296 (68,212)	0.000102 (0.000530)	0.386*** (0.00164)		0.359*** (0.000364)
6.General_Education	-8.167 (68,439)	0.151*** (0.000398)	0.767*** (0.00118)		-0.474*** (0.000329)
7.General_Education	-8.704 (65,749)	0.0974*** (0.000353)	1.298*** (0.00100)		-1.050*** (0.000313)
8.General_Education	21.74 (0)	0.0725*** (0.000418)	1.905*** (0.00100)		-0.736*** (0.000372)
10.General_Education	-8.738 (98,790)	-0.0386*** (0.000492)	2.371*** (0.00101)		-0.564*** (0.000409)
11.General_Education	-11.90 (1.448e+06)	0.818*** (0.00120)	3.949*** (0.00139)		-0.232*** (0.00122)
12.General_Education	-11.62 (389,517)	-0.0328*** (0.000543)	3.407*** (0.000963)		-0.732*** (0.000495)
13.General_Education	-21.79 (1.267e+08)	0.400*** (0.000871)	4.148*** (0.00108)		-0.349*** (0.000877)
o_cons				0 (0)	
Constant	-60.25 (86.02)	-0.298*** (0.000380)	-3.404*** (0.000982)		2.830*** (0.000282)
Observations	1065238438	1065238438	1065238438	1065238438	1065238438

Standard errors in parentheses

The table demonstrates the values of multinomial logit estimates for each category relative to the category of Informal workers (base category).

A trend of the urban populace opting for formal jobs is clearly visible. The coefficient for formal jobs with Social Security benefits and Job Contract is 0.962 which demonstrates the odds for a person from an urban region choosing a formal job relative to a person with an informal job. Similarly, the coefficient in the case of a formal job with all-inclusive benefits, i.e., Social Security, Job Contract, and Paid Leave, equals to 1.126, showing higher odds.

When it comes to gender, the multinomial log-odds for females choosing a formal job with Social Security benefits and Job Contract was found to be -2.381. This represents a less likeliness for women to opt for formal jobs even if they belong to an urban area. A similar

pattern, albeit with slightly lower odds (-1.872), was observed in Formal Jobs with all-inclusive benefits relative to the informal category. The third gender showed positive odds for formal jobs with all inclusive benefits (0.0990). For every new job, they are likely by 0.0990 multinomial logit-odds to opt for formal jobs in place of informal jobs.

As far as Marital status was concerned, the people who are widowed or divorced, showed positive multinomial log-odds for choosing to do formal jobs relative to informal jobs. For instance, the coefficient for divorced individuals was 0.682 for likeliness of opting a Formal Job with Social Security Benefits and Job Contract, relative to taking an informal job.

Finally, the focal point of this research was to highlight how education impacts people's preferences, or does it impact them at all. The results show higher levels of education directly correlated to people's likeliness to opt for a formal job with all three benefits relative to an informal job. As an example, the Multinomial log-odds of someone with a postgraduate or further education to have a formal job with Social Security, Job Contract, and Paid leave are as high as 4.096, relative to people with an informal job. The odds seem to rise directly with the rise in education level for the most populated categories.

There are a few exceptions when a formal job with two benefits, i.e. Social Security and Job Contract, are considered. Here, the odds for someone who has completed higher secondary education are slightly negative (-0.039). This means that as compared to informal job workers, they are less likely to opt for a formal job with the aforementioned benefits.

## **Future scope of research:**

The Unorganized Workers Social Security Act includes welfare schemes like the Janani Suraksha Yojana, aimed at unorganized workers, especially women. However, these schemes are limited by their focus on the BPL (Below Poverty Line) category. To be truly effective, these programs need broader coverage.

Additionally, there is a major chunk of our rural populace that has lesser access to formal jobs with certain benefits. Instead of forcing formal jobs on them, the government should focus on the betterment of storing data related to informal workers. A decentralised system of data collection can help solve many of the qualms with the complexity of measuring informality.

Regardless of sectors, women have lesser access to formal jobs as compared to men. The reasons behind this must be explored further in order to solve the gender pay gap issue from a more grassroots level.

The results of this study show how higher education directly impacts the odds of opting for a formal job. This was regardless of their sector. If the government wishes to promote formal jobs, they must simultaneously provide greater access to education to people from all the corners of the country.

It is essential to continuously remind institutions of their significant impact on employment outcomes and the Indian economy. The increasing informality in employment calls for innovative approaches to measure and understand the workforce, as well as the implementation of comprehensive welfare and policy schemes.



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