Why India's jobs problem is a freedom problem

BY INVITATION
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Most Indian workers hold jobs that pay too little and protect even less. Unemployment is just 3.1% but, in 2025, 56.2% of workers were self-employed, 20.2% were casual labourers, and only 23.6% held a regular wage or salaried job. Moreover, the scarcity of 'good jobs' shows in the scramble for them. Between 2014 and 2022, some 220 million applications were filed for central-govt jobs and 722,000 were selected. In a single recent recruitment, 4.7 million people applied for 26,000 constable posts.

Where most jobs are found explains both the scramble and the rejection of the residual. Barely one worker in seven is employed in an enterprise of more than 20 people. The economy holds millions who create work for themselves and far fewer who create jobs for others. India's jobs struggle is an economy-wide shortage of organisations that grow from providing livelihoods to their owners into employing substantial numbers of other people.

Most workers are situated in the smallest units, while in every peer economy large factories absorb the workforce. Two decades of growth have barely shifted this. A man in regular salaried work earns Rs 24,217 a month and a woman Rs 18,353, while a casual labourer earns Rs 455 a day if he is a man and Rs 315 if she is a woman. The regular wage share rose from 21.7% in 2023-24 to 23.6% in 2025, and it has gained only a few points over two decades.

A well-employed India is one where most workers move from low-productivity farms and household enterprises into organisations that invest, train, and reach larger markets. Their workers gain regular earnings, workplace learning, promotion ladders, and a choice of employers.

Small firms have a place in every economy; the harm comes when most firms stay tiny, because scale is what lets a firm pay well and what gives a worker a ladder and room to bargain. Of every 100 workers, 46 hold wage jobs in Vietnam, 55 in China, and 77 in South Korea, against 24 in India. Jobs on this scale come from firms that grow into large employers. Scale raises productivity because it permits specialisation, investment, training, and access to markets. It also improves the worker's position. A larger employer can offer multiple roles, internal mobility, formal training, predictable schedules, and more room for collective bargaining. An economy of tiny firms leaves workers dependent on a narrow local market and a small number of personal relationships.

Firms stay small because the law prices growth. It prices the freedom to enter the market, the freedom to operate in it, and the freedom to exit it, and firms respond to these prices rationally. They stay below thresholds, rely on contract labour, split themselves across legal entities, and avoid irreversible investment. This is the sense in which India's jobs problem is a freedom problem. Consider what the law charges a 500-worker garment factory.

Entry is priced high. The minimum wage on average across states is 1.4 times what the median earns, the Foundation for Economic Development finds; China and Vietnam set theirs near half the median. Statutory contributions add about 25% to the base wage. A single maternity costs the employer six months of wages, a cost that China, Vietnam, Japan, and Germany all meet through pooled insurance. India bills the firm before it hires.

Each hour of work is priced high. Overtime is owed at double pay from the ninth hour of every day, the highest premium in the world. Hours cannot be averaged across weeks, so a 60-hour week in peak season costs 20% extra in India. Hiring the first woman on a night shift costs about five times as much as hiring a man, once state-imposed conditions are priced. Even changing a shift pattern requires 21 days of notice. Peak season is when the money is made, and the law taxes exactly those hours.

Exit is priced highest of all. Releasing a worker of five years costs five and a half months of wages. A factory with 300 or more workers must seek the govt's permission to retrench, and must apply 90 days ahead to close. A firm that knows it cannot shrink is careful never to grow.

Repricing three elements would put formal work within reach. First, anchor the floor to reality. Set minimum wages against what median workers earn, and move maternity, gratuity, and other social costs from employer mandates into pooled, funded insurance. Second, free the hour, with multi-week averaging, an overtime premium within the global range, and unconditional night work for women. Third, free the exit. Replace govt permission with notice, and bring the cost of severance within the global range.

Other countries have freed labour similarly to reap rich dividends. Britain, after 1979, broke a decade of strikes and returned to employment growth; New Zealand did the same after 1984; South Korea negotiated its opening in 1998; Vietnam liberalised working hours in 2021 to hold its edge against China; and Germany, through the Hartz reforms, spurred a decade of falling unemployment. Each was followed by the good jobs the old rules had promised and withheld.

Labour reforms, coupled with an exit from agriculture, offer the single largest ticket that gives us short run 'job-full' growth and help us approach a developed-country employment structure by the late 2040s. China stood at India's income level in 2007 and has a wage-employed majority today. If India reforms and matches that pace, a majority of Indians could hold regular wage jobs by the early 2040s with agriculture falling steadily, regular wage work rising fast, and millions of enterprises crossing the line from creating livelihoods for their owners to creating jobs for others. Present trends push that transition beyond 2050.

Labour reform is the unfinished business of 1991. The govt has recently consolidated dozens of scattered laws into four codes and liberalised real elements, fixed-term hiring among them. But hard constraints remain, and reforming the same subject twice is thankless work. It is also exactly what is needed.

Luckily for India, the govt has championed the wider case for deregulation. Successive Economic Surveys have argued it, the Centre has announced a deregulation commission, and several states have made their labour laws more flexible. The next task is to build public support for labour liberalisation. Labour reform is still too easily presented as a concession to employers. Its gains lie in more regular hiring, greater choice over working hours, equal access to night work for women, and more firms willing to grow. India's labour reform agenda now needs a public constituency.

The writer is co-founder and CEO, Prosperiti

THE PRICE OF A JOB

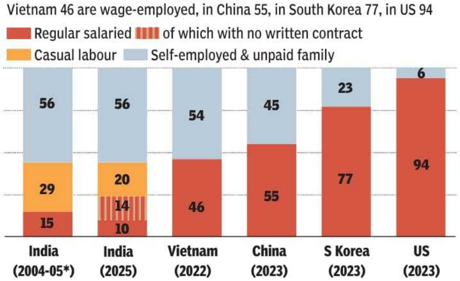
What the law charges a 500-worker garment factory, by country

	India	Vietnam	China	S Korea	US
THE PRICE OF HIRING					
Min wage vs median earnings (wage only)	1.3x	0.5x	0.5x	0.5x	0.26x
Statutory add-ons on top of the wage	25%	21%	22%	19%	9%
Cost of one maternity to the employer	6 months' wages	Nil – insurance	Nil – insurance	Nil – insurance	Nil mandated
THE PRICE OF AN HOUR					
Extra pay for each overtime hour	+100%	+50%	+50%	+50%	+50%
Extra wage bill for a 60-hour peak week	+20%	+10%	+10%	+8%	+17%
Extra cost of first woman on a night shift	5 times a man	Nil	Nil	Nil	Nil
THE PRICE OF PARTING					
Cash owed on releasing a worker of 5 yrs	5.5 months' wages	Nil – state fund pays	~5 months	~5 months	Nil
Permission needed to retrench/close	Yes. Govt must approve	Notify only	Report only	Notify only	No

India's effective labour-cost floor is about 1.7x median earnings after statutory employer costs (FED 2026). Comparator minimum wages are relative to median wages (OECD 2024). China figures are city-specific. India alone requires prior govt approval for retrenchment or closure.

HOW 100 INDIANS WORK

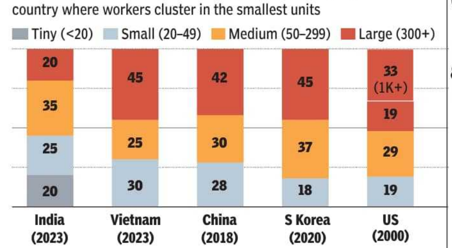
24 in 100 Indians draw a salary, but only 10 have a written contract. In Vietnam 46 are wage-employed, in China 55, in South Korea 77, in US 94



*2004-05 shares are approximate (NSS 61st round). PLFS Annual Report 2025: 57.8% of salaried workers have no written contract. Contract split is available only for India 2025; comparator countries show total wage/salaried employment. Vietnam, China, Korea and US data are ILO modelled estimates (World Bank), latest available years

MISSING: MIDDLE, AND THE LARGE

Manufacturing workers by size of factory. India is the only country where workers cluster in the smallest units



Note: Only US has data for 1,000+ band. Prosperiti calculations from nat'l sources.
Source: Mospi, DataforIndia, Vietnam GSO, China Econ Census, BLS 2000