

Employment and Covid-19

Trends and Issues in Tamil Nadu

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The Covid-19 pandemic has disrupted economies across the world and presented policy makers with the unenviable task of sustaining employment amidst lockdowns. This brief explores challenges facing Tamil Nadu, one of the highly industrialised states of the country and also one of the worst pandemic-hit states.

Academic and political debates in India on unemployment, which is widely attributed to jobless growth amidst stagnation in the agricultural and manufacturing sectors, predate the pandemic. Consequently, it will be useful to locate the disruption caused by the pandemic on a larger canvas so as to enable a comparative assessment vis-à-vis other recent economic shocks, such as demonetisation of high value currency notes on 9 November 2016 and the introduction of goods and services tax (GST) on 1 July 2017. Comparison with other states that have a large manufacturing sector and are net recipients of migrants would also be instructive. We have also added Uttar Pradesh, a large state that has a small manufacturing base but is a major source of migrants to other parts of the country.

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Data

Attempts to assess the opportunity cost of arresting the spread of the pandemic through prolonged lockdowns and figuring out the road ahead are hampered by

¹ Policymakers in India have hitherto depended upon the following for information on employment (last year for which data are available is indicated within parentheses): decennial population census (2011), quinquennial Employment–Unemployment surveys conducted by the National Sample Survey Office (2011–2012), Annual Employment–Unemployment surveys of the Labour Bureau (2015), and Labour Bureau Quarterly Employment surveys (2017). None of these sources provides information for the recent years. The Periodic Labour Force Survey (PLFS) conducted by the National Sample Survey Office in 2017 is, therefore, the only government source of information on employment for the period after demonetisation. However, the PLFS provides only one observation and even that is not comparable with the 68th Round of the National Sample Survey (pp.1–5 in [National Statistical Office. 2019. *Annual report, periodic labour force survey \(July 2017–June 2018\)*. Ministry of Statistics and Programme Implementation, Government of India](#)).

² The CMIE has published monthly information on employment since 2016 and is perhaps one of the very few sources for the most recent period in which the economy has suffered multiple shocks. Since the CMIE sampling frame and methodology has not changed after September 2017 (CMIE, 2020: 194), we can possibly use their data to infer the direction of change notwithstanding concerns, if any, about the accuracy of its estimates of the level of, say, labour participation rate. [Centre for Monitoring Indian Economy. 2020. *Unemployment in India: A statistical profile, January–April 2020*](#).

³ Bertrand et al. (2020) note that 'CPHS has continued to run through the lockdown with roughly 45 percent of its usual sample.' However, we have not been able to obtain any authoritative information on the extent and spatial distribution of sample non-coverage. The latest CMIE report on unemployment covering the period January–April 2020 is silent in this regard (CMIE, 2020). Other data collection exercises have also been affected by the pandemic (Press Trust of India, 2020). [Marianne Bertrand, Kaushik Krishnan, & Heather Schofield. 2020. May 11. *How are Indian households coping under the Covid-19 lockdown? 8 key findings* \(blog\). Rustandy Center for Social Sector Innovation, The University of Chicago; Centre for Monitoring Indian Economy. 2020. *Unemployment in India: A statistical profile, January–April 2020*; Press Trust of India. 2020, June 12. *Govt holds back full IIP data for April. Outlook*](#).

the lack of government data.¹ We have to rely on the Centre for Monitoring Indian Economy (CMIE) data even though its employment data series is relatively new because it is among the very few sources that provide data covering the period up to May 2020.² We use the CMIE's *States of India* (Monthly) database to understand the impact of the pandemic on employment. The data include monthly observations on labour participation rate for the period from January 2016 to May 2020 covering major states including Tamil Nadu. The CMIE also provides information on employment at lower levels of aggregation, including region (urban–rural), gender (male–female), and educational qualification.

The reach of CMIE surveys has been limited by the lockdown, and sample size has reduced sharply.³ A few points are worth noting in this regard. First, the data for the months of March, April, and May might not be comparable with earlier periods due to the reduction in sample size. Second, the actual labour participation rate could be worse if areas more affected by the pandemic were also more likely to be left out of the survey. Third, the extent to which the changes in employment indicators between March and May are driven by changes in sample non-coverage is not clear. Fourth, the data cannot be used to understand the impact on finer categories such as rural, college graduate women due to the smaller than usual sample size and unknown differences in non-coverage rate across categories.

Trends in labour participation rate and unemployment

⁴ The unemployment rate is computed as the number of persons who are 'unemployed who are willing to work and are actively looking for a job, expressed as a percent of the labour force'. p. 191 in *Centre for Monitoring Indian Economy. 2020. Unemployment in India: A statistical profile, January–April 2020.*

⁵ This seems to be an artefact of the idiosyncrasies of samples as there is no data in February and the data for March and April swing wildly from 100% to zero unemployment.

⁶ The labour force used as the base to calculate employment indicators includes persons aged 15 years and above, who fall into either of the two categories (a) persons employed and (b) persons unemployed, who are willing to work and actively looking for a job. p. 190 in *Centre for Monitoring Indian Economy. 2020. Unemployment in India: A statistical profile, January–April 2020.*

⁷ Interestingly, in Uttar Pradesh, the decline in labour participation that began ahead of demonetisation continued until after the introduction of GST and has remained low since then.

⁸ We regressed Tamil Nadu's rural and urban labour participation rate (LPR) on demonetisation, GST, and Covid-19 lockdown dummies after controlling for year- and month-specific effects. We ran two separate regressions, one covering the period up to May 2020 and the other restricted to the period 2016–2019. The results suggest demonetisation did not significantly impact either rural or urban LPR. GST, on the other hand, had a significant negative effect on urban LPR. The immediate impact of Covid-19/lockdown on both rural and urban LPRs are negative and significant.

Short run

Tamil Nadu's unemployment rate⁴ dropped sharply during the strict lockdown in late March and April 2020 but registered a large turnaround in May when lockdown was eased to some extent. However, labour participation rate continued to decline even though at a lesser rate in May. This seems to suggest that while the easing of lockdown has allowed workers to return to work they are either still hesitant or are unable to return due to transport and communications bottlenecks, lack of information, and fear of disease.

Unequal impact

There is no clear trend vis-à-vis caste and religion. However, the drop in unemployment rate is faster in case of urban areas, males, and those with higher education. The magnitude of increase in unemployment and subsequent decrease is the largest in case of those with no education.⁵ Persons with intermediate levels of schooling were affected more than college graduates and reduction in unemployment after relaxation of lockdown is also slower in their case even as their labour participation rate continues to drop. If the level of education can be treated as a proxy for skill, the data seem to suggest that the lockdown has affected semi-skilled workforce more than the skilled and unskilled workforce.

Long run

The CMIE data suggest that at least since January 2016 there has been a steady decline in labour participation rate⁶ (Figure 1). However, there was no significant change in labour participation rate after demonetisation in both rural and urban sectors, though the effect of demonetisation on labour participation rate is negative.⁷ In the case of GST, there is a significant decline in labour participation rate only in the urban sector. The immediate effect of Covid-19/lockdown is visible through a significant decline in labour participation rate in both rural and urban sectors.⁸

Figure 1

Tamil Nadu: Labour Participation and Unemployment Rates (January 2016– May 2020)



Notes. (i) LPR and UER, respectively, stand for labour participation rate and unemployment rate. (ii) Demonetisation (November 2016), introduction of GST (July 2017), and imposition of lockdown (March 2020) are indicated using vertical lines.

Source. Prepared using Centre for Monitoring Indian Economy. *States of India (Monthly)*.

Tamil Nadu and other states

Tamil Nadu's labour participation rate was lower compared to the median state, and unemployment rate was higher compared to the median state in both April and May (Table 1). Despite registering the largest drop in unemployment rate across major states, Tamil Nadu's unemployment rate continues to be higher compared to the median state. In other words, Tamil Nadu's employment indicators have been worse than most other states' after the onset of the pandemic. More specifically, Tamil Nadu differs from other south Indian and industrialised states with regard to the trend of labour participation rate (Figure 2). Urban Tamil Nadu compares with its counterparts in Gujarat and Maharashtra insofar as its labour participation rate continued to fall in May. Not coincidentally, like Gujarat and Maharashtra, Tamil Nadu boasts of a large manufacturing sector, and these states are among the top four Covid-19-affected states. It is noteworthy though that

⁹ States with low unemployment rates are not necessarily better off if their labour participation rates have dropped sharply.

while unemployment rate dropped sharply in May in urban Tamil Nadu, it continued to rise in Gujarat and Maharashtra.⁹ Interestingly, software/new economy hubs, such as Karnataka, Haryana, and Telangana have not seen a very sharp decline in labour participation rate; the first two have seen an increase. In

most states, rural labour participation picked up probably due to harvest-related activities and possibly because of the lower incidence of Covid-19 and the return of urban migrants. However, rural Tamil Nadu suffered a decline in labour participation in both April and May.

Table 1

Tamil Nadu's Labour Participation Rate and Unemployment Rate vis-à-vis Other States'

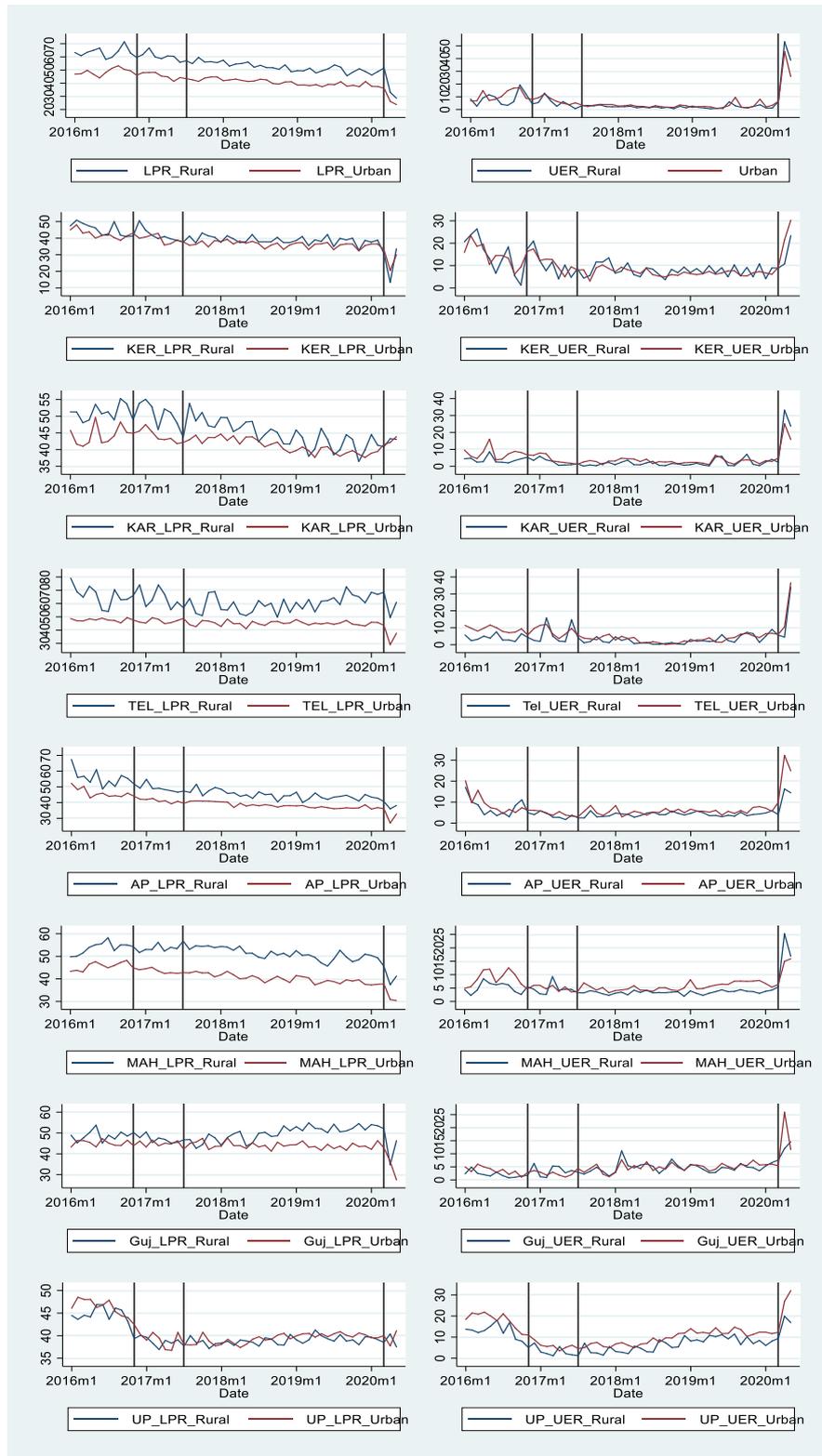
| LPR | | May | |
|-------|------|---|---|
| | | Low | High |
| April | Low | Kerala, NCT of Delhi, Odisha, Tamil Nadu , Andhra Pradesh, Uttarakhand, Maharashtra [#] | Himachal Pradesh, Punjab, Assam, Rajasthan |
| | High | Madhya Pradesh, ^{##} Gujarat, Chhattisgarh, Jharkhand | Bihar, Uttar Pradesh, West Bengal, Telangana, Karnataka, Haryana |
| UER | | May | |
| | | Low | High |
| April | Low | Chhattisgarh, Uttarakhand, Assam, West Bengal, Rajasthan [#] | Himachal Pradesh, Punjab, Telangana, Madhya Pradesh, NCT of Delhi, Kerala |
| | High | Gujarat, Andhra Pradesh, Maharashtra, Uttar Pradesh, ^{##} Odisha, Karnataka | Haryana, Bihar, Jharkhand, Tamil Nadu |

Notes. (i) The table covers 21 major states/union territories. (ii) # indicates median state in April, whereas ## indicates median state in May. (iii) Low (high) indicates that the state falls below (above) the median state. In each case, the median state has been included in the category 'Low.'

Source. Prepared using Centre for Monitoring Indian Economy. *States of India (Monthly)*.

Figure 2

Rural and Urban Labour Participation Rates and Unemployment Rates Across States



Notes. (i) LPR and UER, respectively, stand for labour participation rate and unemployment rate. (ii) Demonetisation (November 2016), introduction of GST (July 2017), and imposition of lockdown (March 2020) are indicated using vertical lines.

Source. Prepared using [Centre for Monitoring Indian Economy. States of India \(Monthly\)](#).

Challenges facing industries in Tamil Nadu

The longer term decline in labour participation rate in Tamil Nadu from 2016 reported by the CMIE could be attributed to general economic shocks, such as demonetisation and the introduction of GST, on the one hand, and a combination of industry-specific issues, such as changing tastes, tightening regulatory environment, and growing international competition, on the other.

Demonetisation and the introduction of GST adversely affected industries such as the firecracker industry in Sivakasi and the textile industry in Tiruppur, both comprising a large number of small and medium units. About 50,000 Micro, Small, and Medium Enterprises (MSMEs) were allegedly shut down in 2017–2018, owing to demonetisation and GST coupled with power problems and delay in disbursement of subsidy by the central government to states (L. Rajagopal, 2018).

L. Rajagopal. 2018, June 9.
Centre, Tamil Nadu blamed for 50,000
industries shutting down.
The New Indian Express.

The firecracker industry exemplifies the multidimensional character of challenges, which transcend sporadic shocks. The town accounts for 90% of the firework production in the country and is one of the ‘biggest local job creator, directly or indirectly employing hundreds of thousands of people, many of them uneducated women’ (Agence France-Presse, 2019). The industry faces at least three challenges. First, it has been hit by campaigns calling for the boycott of polluting industries. Second, it faces major challenges due to the change in the regulatory environment. An October 2018 ruling of the Supreme Court permits only the use of green and improved firecrackers and also bans barium sulphate in the manufacture of firecrackers (K. Rajagopal, 2018). Third, the industry also faces competition from illegal import of cheaper fireworks from China. So, the industry has to cope with changing tastes and regulations and growing international competition. This holds good for other industrial clusters in the Tiruppur, Erode, and Karur belt as well as the Ranipet and Vellore belt.

Agence France-Presse. 2019, October 25.
\$800 million firecracker industry in Tamil
Nadu's Sivakasi hit by anti-pollution drive.
NDTV.

Krishnadas Rajagopal. 2018, October 23.
Supreme Court refuses blanket ban on
firecrackers. *The Hindu.*

Other industries in Tamil Nadu have also been facing environmental challenges that are independent of the pandemic. Sterlite copper plant in Tuticorin failed to secure necessary approvals from the pollution control board due to serious environmental damage caused by the factory (Vaitheesvaran & Mazumdar, 2018). In 2018, following violent protests from people in the surrounding areas, the factory had to be closed down by the Tamil Nadu government. Likewise, leather tanning units in Vellore and textile units in Tiruppur, Karur, and Erode are facing increasing costs of pollution control. Tiruppur is referred to as an environmental ‘dark spot’ due to the large usage of

Bharani Vaitheesvaran &
Rakhi Mazumdar. 2018, May 29.
Tuticorin protest: Tamil Nadu government
orders permanent closure of Sterlite plant.
The Economic Times.

Neeta Deshpande. 2020, February 12. India's textile city of Tiruppur is an environmental dark spot. *The Wire*.

L. Venkatachalam. 2015. Environmental implications of the manufacturing sector: A case study of textile manufacturing in Tiruppur, Tamil Nadu, India. *Review of Development and Change, XX(2)*: 165–175.

water and emission of effluents by the textile industry (Deshpande, 2020). Industrial pollution has not only adversely affected 'the production possibility in agriculture and allied activities but also brought a significant reduction in the economic opportunities in the industrial sector' (Venkatachalam, 2015: 173).

Way forward

A proper study of the economic impact of the Covid-19 pandemic will require combining models of epidemiology, migration, and economic activity. This brief note has tried to highlight some of the early trends. The CMIE data suggest that Tamil Nadu's experience compares with that of urban Maharashtra and Gujarat, where labour participation declined in two consecutive months. It is noteworthy that these three are among the states most affected by Covid-19 and account for more than half the cases in the whole of the country.

States like Tamil Nadu, with greater dependence on manufacturing, might see delay in return to pre-Covid-19 levels of economic activities due to the inability to shift work to home and requirements of social distancing at workplace. Additionally, Tamil Nadu's industries as well as agricultural sector depend a lot on migrant labourers, since most of the native workers are educated and unwilling to take unskilled jobs. For instance, 'Studies of Tiruppur and the National Capital Region clusters show that 70–100 per cent workers are interstate migrants from Bihar, Uttar Pradesh and other poor states' (Deshingkar, 2020). This poses a dual challenge in this pandemic situation: on the one hand, the state is facing a shortage of unskilled workers due to the reverse migration of the labourers to their home state, and on the other hand, there is a supply of skilled workers seeking employment. At least, in the short run, the state, therefore, faces a skill mismatch. The state needs to create an environment conducive to attract the unskilled migrant labourers, to restart the industries, without which the semi-skilled and skilled workers cannot be re-employed.

Priya Deshingkar. 2020, June 16. Faceless and dispossessed: India's circular migrants in the times of COVID-19 (blog). *Down To Earth*.

The government also needs to be sensitive to social differences. After the relaxation of lockdown in May, unemployment dropped faster in the cases of males and those based in urban areas. Further, unemployment was lowest in the case of those with higher education. The government should pay special attention to bringing women and those without college education back into the labour force.

It, however, bears emphasising that Tamil Nadu's industrial woes predate the pandemic and will outlive it. The whole range of medium and small-scale industries in Tamil Nadu are faced with the challenge of coping with changing tastes, tightening regulatory environment, and growing international competition. The answer to environmental challenges is not a complete shutdown of MSMEs. Either the industrial clusters should invest in R & D to find ways to circumvent the problems or the government should step in with investment in public R & D to help them tide over environmental or technological crises, keeping the overall social welfare in mind.

Total bans on economic activities are often counterproductive in a welfare state. For example, the government cannot be oblivious to the fact that a complete ban on child labour in countries like ours can potentially push the children and their

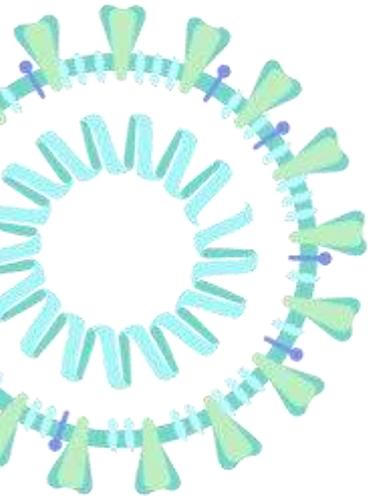
Kaushik Basu. 1999. Child labor: Cause, consequence and cure, with remarks on international labor standards. *Journal of Economic Literature*, 37(3): 1083–1119.

N.C. Mondal & V.P. Singh. 2011. Hydrochemical analysis of salinization for a tannery belt in Southern India. *Journal of Hydrology*, 405: 235–247.

poor families into far worse forms of labour, such as bonded labour, much lower wages, or extreme types of work such as child prostitution (Basu, 1999). The governments and courts ought to keep unpleasant but unavoidable trade-offs and interlinkages in mind. The closure of tanneries in places like Dindigul is a case in point. The effect of the ban on the local economy and environment is illustrative of the impact of one-sided solutions—a double whammy of lost employment and

unresolved environmental damages. One could have explored possible mitigation strategies (Mondal & Singh, 2011), much before the point of no return, to save both.

While the overall economic scenario is bleak, the present crisis perhaps has a silver lining. The pandemic has exposed India's unsustainable dependence on other countries, particularly China, for a variety of goods and nudged the government to hasten building supply chains less dependent upon foreign countries. In a parallel development, the unfortunate border clash in Ladakh has hardened the popular resolve to boycott Chinese goods. These developments may as well offer the much-needed breathing space to domestic industries battered by a series of economic shocks. States that are alert to the rapidly evolving economic environment will recover faster. State governments will have to look beyond the traditional policy approaches and adopt innovative solutions to cope with the emerging challenges. This will require adapting quickly to shifting economic currents. State governments should commission focused need-based surveys that yield precise, even if less accurate, results that feed regularly into policymaking rather than wait for large-scale national surveys with long lags in the release of reports. 🌱



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