

Invisible Persistence: Informality And Labour Market Hysteresis In Post-Pandemic India

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Abstract:

The COVID-19 pandemic caused one of the most severe labour market disruptions in recent Indian history, particularly within sectors characterised by high levels of informal employment. While unemployment rates and aggregate employment indicators gradually recovered after the lockdown period, questions remain regarding whether this recovery reflected genuine labour market stabilisation or a structural shift toward more precarious forms of work. This paper examines India's post-pandemic labour market recovery through the framework of hysteresis and argues that conventional unemployment-based approaches may fail to adequately capture persistence within highly informal economies.

The study draws upon existing empirical literature, labour market surveys, institutional reports, and policy analyses examining employment trends, migration, earnings, informality, and post-pandemic labour market adjustment in India. The analysis is guided by Blanchard and Summers' path dependence model of hysteresis alongside the dual labour market framework associated with Doeringer and Piore. Rather than focusing solely on unemployment, the paper evaluates changes in employment composition, informal labour participation, earnings trajectories, labour force participation, and the expansion of self-employment and casual work after the pandemic shock.

The findings suggest that India's labour market recovery was driven less by the restoration of stable formal employment and more by the absorption of displaced workers into insecure forms of work such as self-employment, casual labour, unpaid family work, and low-productivity agricultural employment. Informality functioned simultaneously as a buffer that prevented prolonged open unemployment and as a structural constraint that limited movement back into secure employment. Women, migrant workers, younger workers, and informal labourers experienced sharper employment losses and slower recovery trajectories, reflecting the uneven distribution of labour market vulnerability.

The paper argues that hysteresis in highly informal economies operates differently from conventional models developed in advanced economies. Persistence after economic shocks becomes visible less through sustained unemployment and more through deteriorating employment quality, weakened earnings, and continued dependence on informal work. The study therefore suggests that indicators such as informality levels, employment composition, and earnings trajectories provide a more meaningful framework for evaluating labour market recovery in economies where informal employment dominates labour market adjustment.

Key Words: Hysteresis, Informal Labour, COVID-19, Labour Market Recovery, Employment Informality, India, Precarious Employment, Dual Labour Market Theory.

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I. Introduction

We often talk about economic shocks as if they are temporary disruptions, something that comes and goes, after which the economy simply returns to where it was. But that assumption feels slightly incomplete. Because if economies were truly that elastic, then why do crises continue to leave marks long after they are over? This is where the idea of hysteresis becomes important. In economics, hysteresis suggests that outcomes are not determined by present conditions, but are shaped by past shocks, such that even temporary disruptions can leave long-lasting, and sometimes irreversible, effects on employment and output¹.

These effects become especially visible in labour markets. Job loss is rarely just a momentary event. When individuals remain unemployed for long periods, it begins to affect not only their current income but also their prospects. Entering the labour market during a downturn, for instance, can influence earnings and career trajectories for years. This makes it difficult to treat shocks as isolated events; instead, they begin to appear as processes that reshape both individual lives and aggregate outcomes over time.

The COVID-19 pandemic provides a recent example of how difficult it is to ignore. The scale of employment loss in the early months of the pandemic was unprecedented, with labour markets contracting sharply over a very short period.¹¹ While some degree of recovery did follow, particularly through the return of

temporarily laid-off workers, the process did not unfold evenly.¹⁴ In many cases, the disruption of employer–employee relationships made recovery slow and more uncertain than expected.

At the same time, the effects of the pandemic were not experienced uniformly. Lower-income and vulnerable workers were disproportionately affected, and the recovery that followed reflected these inequalities. Some groups were able to regain employment relatively quickly, while others, especially those already at the margins of the labour market, faced continued instability. This unevenness itself raises an important question: whether what we are observing is simply delayed recovery, or something closer to persistence.¹⁴

These questions become even more relevant in economies with existing structural constraints. In India, the labour market is shaped by both demographic pressure and a high degree of informality. While a large working-age population is often framed as an opportunity for growth, the reality depends on whether the economy can generate enough stable employment. In many cases, this has not kept pace, leading to a growing reliance on informal work.

Informality, in this context, is not just a side feature of the labour market but one of its defining characteristics. Informal labour typically refers to employment that exists outside formal regulatory frameworks, lacking written contracts, job security, or access to social protection such as pensions or healthcare. A significant proportion of India's workforce operates in this sector, including daily wage labourers, self-employed individuals, and workers in small or unregistered enterprises. While this sector often absorbs labour during periods of distress, it does so under conditions of low productivity, unstable income, and limited upward mobility.²²

This study examines whether what appears as recovery in India's post-pandemic labour market constitutes genuine stabilisation or a structural shift into precarious employment. It adopts a literature-based analytical approach, drawing on existing empirical studies to interpret how employment disruptions unfolded, how recovery proceeded, and crucially, what kind of recovery it was. In doing so, it argues that the informal sector plays a dual role in this process: absorbing displaced workers in a way that prevents sustained open unemployment, while simultaneously trapping many of them in lower-quality work with limited mobility. This dual function means that standard indicators may signal improvement even when underlying labour market conditions have not genuinely stabilised.

By focusing on India, the study explores how the defining characteristic of high informality shapes both the experience of the shock and the form that persistence takes, suggesting that hysteresis in this context operates not through prolonged unemployment, but through a structural downgrade in the quality and security of work that remains largely invisible to conventional measurement.

II. Research Question

To better understand the long-term implications of these dynamics, the study poses the following research question:

Does India's COVID-19 labour market recovery reflect genuine stabilization or a structural shift into precarious employment—and what does this distinction reveal about how hysteresis operates in highly informal economies?

III. Objectives Of The Study

1. To examine the concept of hysteresis and its relevance in labour market analysis, with particular attention to how its manifestations may differ in informal economies.
2. To analyse the structural characteristics of India's labour market, particularly its high degree of informality as the context within which the shock operated.
3. To assess the impact of the COVID-19 lockdown on employment and labour market outcomes in India, distinguishing between formal and informal sector effects.
4. To evaluate whether post-pandemic employment recovery represents a genuine return to pre-pandemic conditions or a structural shift toward unstable employment.
5. To investigate the dual role of informality in the recovery process: as a labour market buffer that absorbs displaced workers, and as a mechanism that sustains persistence by trapping workers in low-quality employment.
6. To discuss the implications of these findings for how hysteresis should be conceptualised and measured in highly informal economies, and for labour market policy.

IV. Literature Review

Theoretical Foundations of Hysteresis in Labour Markets

The idea of hysteresis begins by questioning something that is often taken for granted in economics—that labour markets naturally return to a stable equilibrium after a shock. The traditional assumption is that any increase in unemployment is temporary and that over time, the economy corrects itself. However, hysteresis

challenges this by suggesting that shocks can leave behind effects that do not fully disappear. Instead of returning to a previous “natural rate,” unemployment itself may be shaped by what came before.

This argument is most clearly developed by Blanchard and Summers (1986), who suggest that labour markets exhibit a form of path dependence, where present outcomes are influenced by past disruptions rather than converging back to equilibrium. This makes the idea of a fixed natural rate unstable, since the rate itself can shift depending on historical conditions.¹

Trying to understand why this happens leads to several possible explanations. One of them is the insider–outsider framework. Further developed by Galí (2020), the insider-outsider model suggests that those already employed have a degree of bargaining power that limits opportunities for the unemployed because “the concerns of the employed are given a disproportionate weight,” leaving the unemployed out of the wage-setting process. In this sense, unemployment can become self-reinforcing, not necessarily because there are no jobs, but because access to them is restricted.²

Alongside this, human capital theories point to another mechanism: unemployment scarring. As described by Nilsen and Reiso (2011), the longer individuals remain unemployed, the more likely they are to face future negative experiences due to a variety of reasons. Their skills may deteriorate, they might lose encouragement, choose poorer quality jobs or not get hired at all. Over time, this can create a cycle where temporary unemployment gradually turns into something more persistent.³

More recent work extends this argument beyond individual mechanisms to broader macroeconomic processes. Plotnikov (2014), for instance, shows that aggregate shocks, particularly those affecting wealth and demand, can lead to prolonged increases in unemployment. Even when output begins to recover, employment does not always follow at the same pace, leading to what are often described as “jobless recoveries.” This suggests that recovery itself may be uneven, and that labour markets respond more slowly than other parts of the economy.²³

At the same time, the persistence of shocks is not limited to unemployment alone. Cerra and Saxena (2008) show that financial and political crises often result in permanent output losses, with economies failing to return to their pre-crisis growth trajectories.²⁴

The Limits of the Standard Framework

In developing economies with large informal sectors, workers who lose formal employment do not necessarily remain unemployed in the conventional sense. Instead, they often transition into informal or low-productivity work, making labour market persistence more difficult to capture through standard unemployment indicators alone.

This distinction becomes particularly important because informality functions not only as a structural feature of the labour market, but also as a mechanism of adjustment during crises. Gutierrez, Paci, and Park (2010), in their analysis of labour market outcomes in Indonesia and Mexico, argue that workers displaced during economic shocks frequently move into informal activities that act as “shock absorbers” for the economy. Their study shows that in Mexico, labour market adjustment during crisis periods occurred less through open unemployment and more through an expansion of informal employment. This suggests that labour market distress may remain hidden within shifts in employment structure rather than appearing directly in unemployment rates.⁴

A similar argument appears in broader development literature on informality. The joint ILO–WTO study *Globalization and Informal Jobs in Developing Countries* notes that in many developing economies, workers displaced during economic restructuring enter the informal economy because unemployment is not financially sustainable in the absence of strong social protection systems. The report explicitly describes the informal economy as an “adjustment buffer” during periods of crisis and structural change. However, while the informal sector absorbs labour and prevents prolonged open unemployment, it may also reinforce persistence by trapping workers in low-quality and unstable forms of employment from which transitions back into formal employment are difficult.⁶

India’s Labour Market Before COVID

In India, the labour market already showed signs of strain before the COVID-19 shock. Bhattacharya and Prasanth (2024) point out that key indicators such as employment rates and labour force participation had been declining in the years leading up to the pandemic, suggesting that the labour market was not in a particularly strong position to absorb a large shock, increasing the likelihood that its effects would persist over time rather than disappear quickly.

One of the clearest patterns visible before the pandemic was the weakening relationship between economic growth and employment generation.¹⁰ Choksi, Chattopadhyay, and Chakravorty (2021) describe this transition as a movement from “jobless growth” toward “job-loss growth,” noting that employment elasticity in India steadily declined despite positive GDP growth. Between 2004–05 and 2011–12, employment growth came close to zero despite high aggregate economic growth, and by 2017–18 employment elasticity had turned negative, implying that sections of the working-age population were being displaced from the labour force itself.⁷

At the same time, labour market participation and employment outcomes had already shown signs of deterioration before 2019. The *India Employment Report 2024* notes that labour force participation rates, workforce participation rates, and unemployment indicators experienced “long-term deterioration between 2000 and 2019” before showing limited post-pandemic improvement. However, the report also cautions against interpreting this later improvement too positively, since it coincided with periods of economic distress and was partially driven by increases in low-productivity agricultural employment.⁸

The structure of employment itself further reflected this vulnerability. Informality continued to dominate the Indian labour market, with nearly 82 per cent of workers employed in the informal sector and close to 90 per cent were informally employed. Much of this employment was concentrated in self-employment and casual labour, both of which are associated with lower wages, limited job security, and minimal access to social protection. The report also notes that after 2019, the share of informal employment increased further due to the nature of post-pandemic employment growth.⁸

This dependence on informal employment was unevenly distributed across regions and demographic groups. Informality remained particularly concentrated in rural areas and sectors such as agriculture, construction, and trade. Women, lower-income groups, and socially marginalised communities were also more likely to be informally employed, reinforcing existing inequalities within the labour market. In this sense, vulnerability before the pandemic was not only economic but also deeply structural.⁹

Another important feature of the pre-pandemic labour market was the slowdown in structural transformation. India experienced a gradual movement away from agriculture toward construction and services between 2000 and 2019, but this transition remained incomplete and manufacturing employment stayed largely stagnant at around 12–14 per cent. Since manufacturing is often associated with more stable and productive employment, this stagnation limited the economy’s ability to absorb labour into higher-quality jobs.⁸ As a result, a large share of employment growth continued to occur in sectors characterised by informality and low productivity.

Unequal Impacts and Labour Market Disruptions due to COVID-19

The COVID-19 pandemic produced an unprecedented shock to the Indian labour market, but its effects were distributed highly unevenly across workers, sectors, and regions. India’s stringent nationwide lockdown in March 2020 caused an immediate collapse in employment, particularly within the informal economy, where workers lacked contractual security, savings, and social protection. Using CMIE data, Bhatt, Bahl, and Sharma (2021) note that unemployment in India rose sharply from 8% in March 2020 to 24.3% by May 2020 following the lockdown. The shock was especially severe because India entered the pandemic with an already vulnerable labour structure characterised by high informality and weak labour protections. Informal workers constituted more than 90% of India’s workforce, with the non-farm sector itself remaining overwhelmingly informal in nature.¹¹

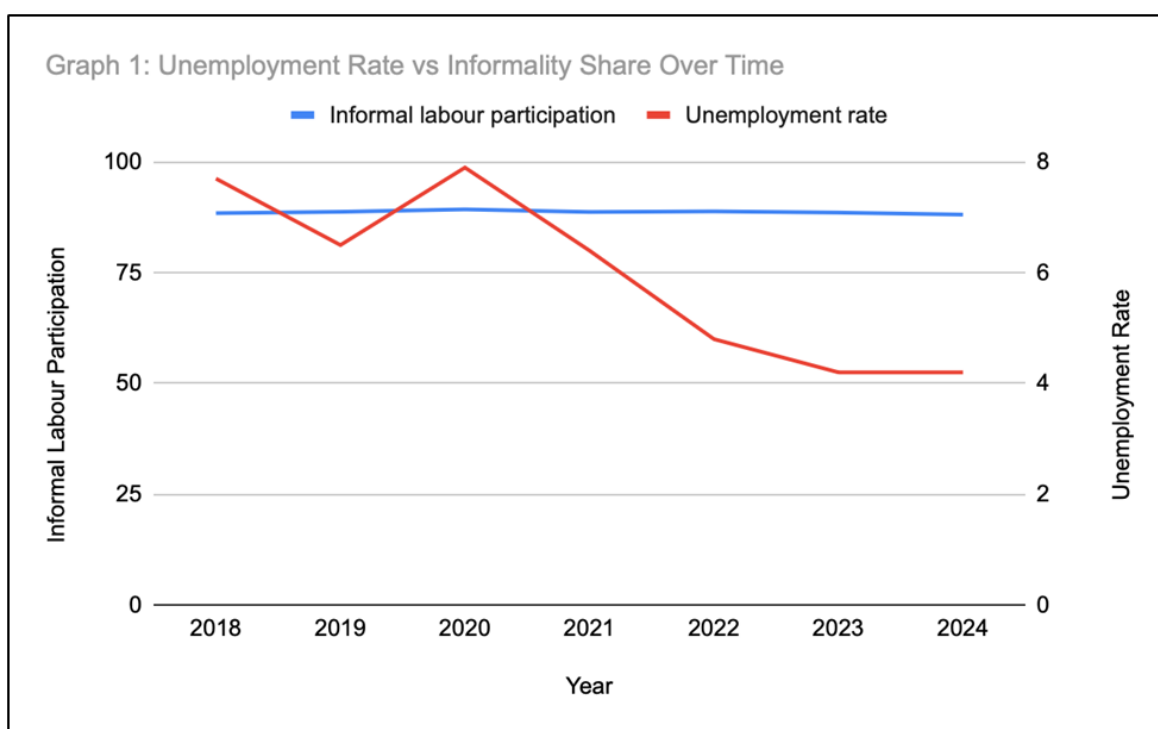
The employment collapse disproportionately affected daily wage earners, migrant labourers, women, and younger workers whose livelihoods depended on face-to-face economic activity. Estimates cited in *India’s Informal Workers Under the Lockdown* suggest that nearly 80% of informal workers lost employment as the lockdown progressed. Workers in construction, manufacturing, street vending, domestic work, and small retail were particularly exposed because their occupations could neither shift online nor continue under mobility restrictions.¹³ Further, only around 18–19% of non-farm workers in India were employed in occupations that could plausibly be performed from home, meaning the vast majority of workers lacked any meaningful insulation from the lockdown shock.¹¹

Empirical evidence from the Azim Premji University COVID-19 Livelihoods Phone Survey (CLIPS) illustrates the magnitude of this disruption among informal workers. Surveying 4,942 respondents across 12 states during the lockdown period, the study found that nearly two-thirds of respondents lost work during the hard lockdown, while those who remained employed experienced earnings reductions of more than 50%. Even six months after the lockdown, recovery remained incomplete: one in five workers previously employed before the pandemic was still out of work, while earnings overall remained roughly half of pre-pandemic levels. The study also highlights how recovery itself was unequal. Urban workers, women, older workers, and graduates were significantly less likely to regain employment after job loss.¹²

Women experienced particularly severe labour market scarring during the pandemic. Abraham, Basole, and Kesar’s findings show that women were seven times more likely than men to lose employment during the lockdown and eleven times more likely not to return to work afterward.²⁵ Simultaneously, many women who did enter the labour force during the recovery phase did so through unpaid family labour or highly insecure forms of self-employment rather than stable wage employment. Self-employment increased dramatically between 2019 and 2022, especially unpaid family work among rural women, while regular informal employment declined. The increase in labour force participation therefore did not necessarily indicate improved labour market conditions, but often reflected distress-driven employment and survival strategies.¹²

Migrant workers also faced disproportionate hardship during the lockdown period. The abrupt shutdown of urban economic activity triggered a large-scale reverse migration from cities to rural areas, particularly among construction and casual workers. There was a sharp increase in employment within agriculture and construction after 2020, suggesting that many displaced urban workers were absorbed into lower-productivity rural employment. This pattern is consistent with broader findings in the literature that households responded to income shocks by entering subsistence agriculture, unpaid family work, or casual labour rather than remaining unemployed.⁸

The unevenness of the pandemic shock also reflected pre-existing structural inequalities within India’s labour market. The CLIPS study argues that the pandemic intensified vulnerabilities already created by demonetisation, GST-related disruptions, and slowing growth in the informal economy before COVID-19.¹² Lower-caste workers, poorer households, and workers with low educational attainment suffered disproportionately large employment losses because they were concentrated in insecure and labour-intensive sectors that could not operate remotely. At the same time, the absence of extensive social protection mechanisms forced many workers to accept low-quality employment quickly after lockdown restrictions eased, even if wages and conditions deteriorated substantially.



Post-Pandemic Recovery

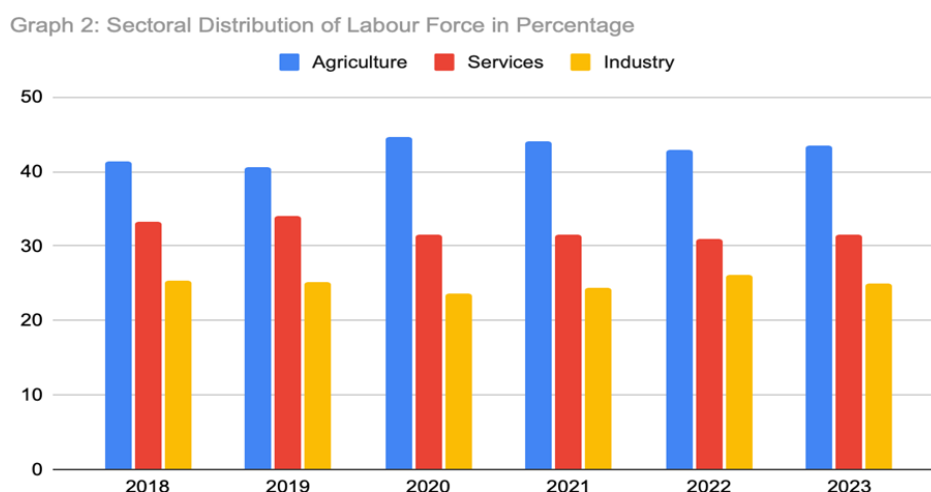
Although aggregate unemployment rates gradually declined after the lockdowns ended, much of the employment recovery occurred through informal, casual, or self-employed work rather than stable salaried employment. As He et al. (2023) argue, headline indicators masked “a story of downward transitions,” with workers moving “into more informal and lower-paid types of work in agriculture and rural areas.” Using CMIE-CPHS panel data, the study found that workers affected by the pandemic were 3.6 percentage points more likely to shift from salaried or casual wage employment into self-employment immediately after the lockdowns, and 3.9 percentage points more likely to remain in casual wage work even sixteen months later.¹⁴

The earnings dimension of recovery further reinforces this argument. Salaried workers who remained employed experienced downward occupational mobility and reduced incomes after the pandemic. Salaried workers in the COVID-affected cohort shifted into jobs earning a median monthly income ₹250 lower than comparable pre-pandemic workers, even up to sixteen months after the initial lockdown shock.¹⁴ Similarly, the Azim Premji University study demonstrates that six months after the hard lockdown, one in five informal workers remained unemployed, while average earnings overall were still only about half of pre-pandemic levels. The study additionally notes that “some better off workers shifted to more precarious types of employment,” reflecting a broader deterioration in employment quality rather than a straightforward recovery.¹²

Table 1: Different Labour Force Parameters in Percentage ²¹				
Year	Informal Labour Participation	Unemployment Rate	Labour Force Participation Rate	Change in GDP
2018	88.455	7.7	47.6	6.5
2019	88.762	6.5	49.4	3.9
2020	89.306	7.9	50.5	-5.8
2021	88.718	6.4	51.1	9.7
2022	88.858	4.8	52.4	7.6
2023	88.584	4.2	55.8	9.2
2024	88.127	4.2	55.8	6.5

Sectoral shifts during the recovery period further support the argument that India experienced adjustment rather than restoration. Agriculture absorbed the largest increase in employment after 2020, with agricultural employment rising by more than 55 million workers between 2019 and 2022. Construction employment also expanded, while several urban service sectors either stagnated or declined.⁸

The persistence of weakened earnings after the pandemic has also been documented in recent labour market reporting. A 2025 Times of India analysis based on official labour data reported that Indians were working fewer hours post-COVID while real earnings remained largely stagnant, despite headline improvements in employment levels.¹⁷ Likewise, a post-pandemic survey discussed in The Economic Times highlighted that while parts of the informal sector showed signs of resilience and recovery, much of this rebound remained concentrated in small-scale and vulnerable forms of work rather than secure formal employment.¹⁶



The Migrant Worker Case

The migrant worker crisis during the COVID-19 lockdown offers one of the clearest examples of how economic shocks in India are absorbed through informality rather than stable re-employment. Migrant workers were already concentrated in informal sectors such as construction, hospitality, manufacturing, and small-scale urban services, usually without contracts or social protection. Shahare (2021) notes that nearly 77 percent of India’s workforce fell within vulnerable forms of employment, while migrant workers themselves often lacked formal protection from employers or the state. When the nationwide lockdown abruptly halted urban economic activity, millions of migrants immediately lost both work and income.²²

The scale of the disruption reflected the dependence of India’s urban economy on informal migrant labour. Sikdar and Mishra (2020) estimate that around 40 million internal migrants were affected by the lockdown,

particularly in sectors such as construction, manufacturing, trade, hotels, and restaurants. The paper also shows that urban unemployment rose sharply from 9.41 percent in March 2020 to nearly 25 percent in April and May 2020. Survey evidence highlighted the severity of the crisis: ActionAid found that 81 percent of migrant workers lost their livelihoods during the lockdown, while only 35 percent received full wages.²⁶ Similarly, a Jan Sahas survey cited by Shahare (2021) reported that 90 percent of migrant workers lost their jobs, 42 percent were left without food, and 33 percent were stranded in cities.²²

The crisis also exposed the limits of India's welfare architecture for informal and mobile workers. Migrants had poor access to programmes such as the Public Distribution System (PDS), healthcare schemes, and social security protections. Many were excluded because welfare systems were tied to permanent residence and documentation.²² The "non-portability of entitlements" was identified as a major reason inter-state migrants were especially vulnerable during the lockdown.²⁶ 94 percent of migrant workers lacked BOCW identity cards and therefore could not access compensation or welfare funds.²²

Importantly, the reverse migration did not lead to stable recovery. Many migrants returning to rural areas were absorbed into low-productivity agriculture, casual labour, or unpaid family work rather than secure employment. Many returning migrants were unable to find work in their villages and were eventually forced to return to cities under even more precarious conditions.²²

Research Gap

Existing literature provides substantial insight into both hysteresis theory and the labour market effects of COVID-19, but these two strands of research rarely intersect in the context of highly informal economies such as India. Theoretical studies on hysteresis primarily focus on advanced economies with relatively formal labour markets, where persistence is measured through prolonged unemployment and labour force detachment. At the same time, research on India's post-pandemic labour market has extensively documented employment loss, reverse migration, declining earnings, and the expansion of informal work. However, much of this literature treats these outcomes as indicators of labour distress without directly examining whether they constitute a form of hysteresis.

A significant limitation within the existing literature is the continued reliance on standard labour market indicators, particularly unemployment rates, to assess recovery. As several studies discussed earlier suggest, workers in highly informal economies often do not remain openly unemployed after a shock. Instead, they transition into self-employment, casual labour, unpaid family work, or subsistence agriculture. This creates a situation where unemployment may decline while labour market precarity persists or even intensifies. Existing hysteresis frameworks do not fully account for this mechanism of adjustment, because they were largely developed in contexts where formal unemployment more accurately reflects labour market exclusion.

Similarly, while Indian COVID-19 labour market studies clearly show a deterioration in employment quality after the pandemic, relatively few explicitly question whether the apparent post-pandemic recovery reflects genuine stabilization or merely the absorption of workers into more insecure forms of employment. The literature documents the outcomes of the shock, but rarely conceptualises these outcomes within a broader framework of labour market persistence and structural scarring.

This creates an important gap in understanding how hysteresis may operate in highly informal economies. It is within this gap that the present study is situated. By examining whether India's post-COVID labour market recovery reflects genuine stabilization or a structural shift into precarious employment, this paper attempts to reconsider how hysteresis operates in economies where informality dominates labour market adjustment.

V. Methodology

This study adopts a qualitative, theoretically guided interpretive approach to examine whether India's post-pandemic labour market recovery reflects genuine stabilisation or a structural shift into precarious employment. Instead of relying on primary data collection or statistical modelling, the study draws on existing empirical research, institutional reports, and policy analyses to understand how employment disruptions unfolded after COVID-19, how recovery proceeded, and more importantly, what kind of recovery actually took place.

This approach is intentional because the central concern of the paper is not only to identify changes in employment trends, but also to interpret those changes within a broader theoretical framework. The study therefore focuses less on measuring recovery in purely numerical terms and more on understanding whether apparent recovery reflects genuine labour market stabilisation or a deeper structural adjustment toward insecure forms of work.

The analysis is guided by two theoretical frameworks that together shape how the labour market outcomes are interpreted. The first is the path dependence model of hysteresis developed by Blanchard and Summers (1986). Their argument challenges the assumption that labour markets naturally return to equilibrium after a shock. Instead, temporary disruptions can permanently alter labour market trajectories, meaning that

present outcomes continue to reflect the effects of past crises.¹ This framework provides the basis for examining whether the effects of the COVID-19 lockdown persisted beyond the immediate shock period and became embedded within the structure of employment itself.

The second framework is the dual labour market model associated with Doeringer and Piore (1971). This model distinguishes between a primary labour market characterised by stable and formal employment, and a secondary labour market made up of informal, casual, and precarious work with lower wages and weaker job security.¹⁸ In highly informal economies such as India, labour market shocks may not necessarily appear through sustained unemployment because displaced workers are often absorbed into informal employment instead. As a result, persistence may become visible through shifts in the composition and quality of employment rather than through unemployment rates alone.

The sources selected for this study reflect this theoretical orientation. The analysis draws upon academic studies, labour market surveys, institutional reports, and independent research publications examining employment trends, informality, migration, wages, and post-pandemic labour market recovery in India. Key sources include the *State of Working India reports*, PLFS data analyses, and studies by organisations such as the ILO, IMF, IGIDR, and Azim Premji University. These sources are used not simply because they document labour market change, but because they provide evidence regarding the relationship between employment recovery and employment quality.

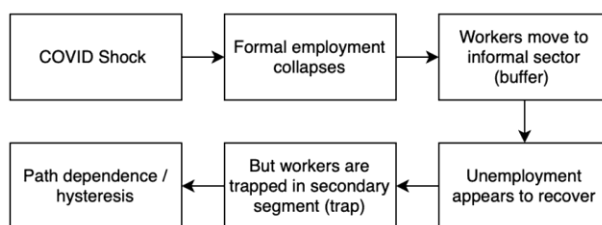
The choice of indicators follows directly from the theoretical frameworks discussed above. Rather than focusing only on unemployment rates, the study examines changes in the composition of employment, levels of informality, earnings, labour force participation, and shifts toward self-employment or unpaid work. This is important because headline unemployment rates may understate persistence in economies where workers cannot afford to remain openly unemployed for long periods. A decline in unemployment, therefore, does not necessarily indicate full recovery if workers are re-entering the labour market through insecure or low-paying employment.

Hysteresis is therefore understood in this study not as a single measurable outcome, but as a broader pattern of persistence across multiple labour market indicators. It is identified through the failure of labour market conditions to return to pre-pandemic patterns, particularly where recovery is accompanied by increased informality, declining employment quality, or downward occupational mobility. This differs from conventional approaches that test hysteresis primarily through unemployment data alone.

The analysis itself is organised into three stages. The first examines the scale and distribution of the initial employment shock during the lockdown period. The second focuses on the pace and nature of recovery following the easing of restrictions. The final stage considers whether post-pandemic labour market outcomes indicate genuine restoration or a structural shift toward precarious employment. Across each stage, the central concern is not simply whether labour market indicators improved, but whether those improvements reflected a return to earlier conditions or stabilisation at a lower and more insecure level.

By grounding the analysis within these two theoretical frameworks, the methodology attempts to move beyond a purely descriptive account of post-pandemic labour market trends. Instead, it uses theory to interpret what different forms of recovery might mean in the context of a highly informal economy such as India, where labour market persistence may operate differently from the conventional models developed in advanced economies.

Diagram 1: The Dual Labour Market Shock-Absorption Model



VI. Analytical Discussion

Interpreting Recovery Through a Dual Labour Market Lens

The evidence discussed in the previous sections becomes easier to understand when viewed through the dual labour market framework. At an aggregate level, many indicators appeared to suggest recovery after the pandemic. Unemployment rates declined, labour force participation improved, and overall employment numbers began to rise again. However, looking more closely at the composition of that recovery reveals a different pattern. Workers displaced during the lockdown did not return to formal employment in large numbers. Instead, many shifted into self-employment, casual labour, unpaid family work, and low-productivity agricultural work. He et

al. (2023) directly identified this movement, finding that workers affected by the pandemic were significantly more likely to transition into self-employment after the lockdown and remain in casual work even sixteen months later.¹⁴ Nath et al. (2022) similarly show that even workers who regained employment after the lockdown continued to earn substantially less than they had before the pandemic.¹²

This pattern closely reflects what the dual labour market framework would predict following a major shock. When formal employment contracts sharply and opportunities for re-entry remain limited, displaced workers cannot afford to remain unemployed for long periods. They therefore move into the secondary segment of the labour market, where work is more insecure, less regulated, and lower paying. Movement into informal work becomes relatively easy because it requires few institutional barriers to entry. Moving back into formal employment is considerably harder because informal workers often lack contracts, stable employment histories, or access to institutional pathways back into secure work. Recovery, in this sense, does not represent restoration to earlier conditions, but stabilisation within a more precarious part of the labour market.

The earnings evidence reinforces this interpretation. A shift from salaried employment into informal self-employment is not simply a change in occupational category. It also reflects reduced income stability, weaker social protection, and lower long-term earning potential. He et al. (2023) find that even salaried workers who remained employed experienced downward occupational mobility and declining incomes long after the immediate lockdown period.¹⁴ This suggests that informal employment did not operate as a short-term adjustment mechanism alone, but became a more durable labour market outcome for many workers.

How Hysteresis Operates Differently in Informal Economies

Applying Blanchard and Summers’ path dependence framework to the Indian case reveals an important limitation within conventional hysteresis research. Path dependence theory suggests that labour market shocks alter future trajectories rather than temporarily displacing the economy from a stable equilibrium. Much of the evidence reviewed in this paper appears consistent with this argument. Employment composition shifted toward informality after the pandemic, earnings remained depressed for many workers, and the structural vulnerabilities that intensified the shock remained present even after restrictions were lifted.

At the same time, studies testing hysteresis in India through conventional unemployment-based methods often find only mild or conditional evidence of persistence. Singh (2025), for instance, finds evidence of hysteresis during the pandemic period, but not as a permanent long-run feature of the Indian labour market.¹⁹ On the surface, this seems inconsistent with the broader structural evidence discussed earlier. However, the contradiction may lie less in the labour market itself and more in how persistence is measured. Conventional hysteresis models primarily look for sustained increases in unemployment. In India, unemployment rates recovered comparatively quickly because displaced workers moved into informal work rather than remaining openly unemployed. The persistence of the shock therefore existed, but not in the form standard models were designed to detect.

This points toward a broader difference in how hysteresis operates across labour market structures. In advanced economies with relatively formal labour markets, workers who lose employment either return to formal work or remain visibly unemployed. Persistence therefore appears through elevated unemployment rates. In a highly informal economy such as India, adjustment occurs differently. Workers are absorbed into insecure employment instead of remaining outside the labour market altogether. As a result, the long-term effects of the shock appear through employment quality, earnings instability, and expanding informality rather than through unemployment alone.

This has important implications for how hysteresis should be interpreted in the Indian context. The more relevant question is not whether unemployment returned to pre-pandemic levels, but whether the structure of employment did. Viewed through that lens, the evidence suggests that the labour market did not fully return to its earlier composition. Instead, a substantial share of workers remained concentrated in more precarious forms of employment, indicating a more durable structural shift.

Aspect	Advanced Economy	Informal Economy (India)
Shock absorption	Unemployment rises	Informal employment rises
Persistence indicator	Unemployment rate remains high	Informality remains high and earnings remain depressed
Visibility of distress	High; visible in unemployment statistics	Lower; hidden within employment figures
Result in standard hysteresis tests	Hysteresis is more easily detected	Hysteresis is often underestimated or missed

Stabilisation or Structural Shift?

The central question of this paper was whether India's post-pandemic labour market recovery reflects genuine stabilisation or a structural shift into precarious employment. Based on the evidence reviewed and the theoretical framework applied, the recovery appears more consistent with structural adjustment than with a return to pre-pandemic labour market conditions.

A genuine stabilisation would imply more than rising employment numbers alone. It would require a recovery in employment quality, income stability, and access to secure work. The evidence reviewed throughout this study does not fully support that interpretation. Informality expanded during the post-pandemic period, earnings for many workers remained below pre-pandemic levels, and the groups most severely affected during the lockdown, including women, migrant workers, casual labourers, and younger workers, experienced slower and less complete recovery trajectories. These patterns suggest that the labour market absorbed the shock by repositioning many workers into less secure forms of employment rather than restoring earlier conditions.

This also reveals something broader about how hysteresis functions in highly informal economies. Persistence does not disappear simply because unemployment rates decline. Instead, it reappears through weaker earnings, unstable employment, and a greater dependence on informal work. In this sense, unemployment alone becomes an insufficient measure of labour market recovery. Policies focused only on reducing unemployment rates may therefore underestimate the extent of labour market distress and overlook the structural deterioration taking place beneath aggregate indicators.

At the same time, the limits of this analysis should also be acknowledged. Since this study is literature-based rather than empirical, it cannot definitively determine whether the structural changes observed after the pandemic are permanent. It remains possible that some of the labour market shifts identified here may reverse over a longer period than the available studies currently capture. However, the evidence does make it difficult to argue that India's labour market has already returned to its pre-pandemic condition in any meaningful structural sense.

VII. Key Findings

- India's post-COVID labour market recovery cannot be understood as genuine stabilisation. Although employment and unemployment indicators improved after the lockdown period, the structure of employment itself shifted toward informal and precarious work. This suggests that labour market persistence in India becomes visible less through unemployment and more through changes in employment composition that conventional indicators fail to capture.
- The dual labour market framework helps explain this recovery pattern. Workers displaced during the pandemic did not substantially return to secure and formal employment. Instead, many stabilised within the secondary segment of the labour market through self-employment, casual labour, unpaid family work, and subsistence agriculture. These forms of employment offered immediate survival but also involved lower earnings, weaker security, and limited opportunities for upward mobility.
- Informality performed a contradictory role during the recovery process. It functioned as a shock absorber by preventing prolonged open unemployment after the lockdowns. At the same time, it also acted as a structural trap by concentrating displaced workers within insecure forms of work from which movement back into formal employment remained difficult. Persistence therefore existed, but often remained hidden beneath aggregate recovery indicators.
- The relatively weak evidence of hysteresis found in some Indian labour market studies may reflect a problem of measurement rather than an absence of persistence itself. Blanchard and Summers' path dependence framework remains relevant in the Indian context, but the effects appear through deteriorating employment quality, weakened earnings, and long-term informalisation rather than sustained unemployment alone.
- The pandemic intensified inequalities that already existed within India's labour market before COVID-19. Women, migrant workers, younger workers, and workers concentrated in insecure occupations experienced sharper employment losses and slower recovery trajectories. The post-pandemic labour market therefore reflects a deepening of pre-existing vulnerabilities rather than a complete structural break created solely by the pandemic.
- Understanding hysteresis in highly informal economies requires a broader diagnostic framework than conventional unemployment-based approaches provide. In economies where workers are rapidly absorbed into informal employment after shocks, indicators such as employment composition, informality levels, and earnings trajectories become more useful for evaluating whether genuine labour market recovery has actually taken place.
- While the evidence does not point to strong hysteresis in a strict sense, it does suggest the presence of hysteresis-like dynamics, where temporary shocks lead to lasting changes in the structure and quality of employment.

VIII. Conclusion

This paper examined whether India's post-COVID labour market recovery reflects genuine stabilisation or a structural shift into precarious employment, and what this distinction reveals about how hysteresis operates within highly informal economies. Based on the evidence examined and the theoretical frameworks applied throughout the study, the recovery appears far more consistent with structural adjustment than with a meaningful return to pre-pandemic labour market conditions. More importantly, this distinction suggests that hysteresis may operate differently in economies where informal employment dominates labour market adjustment.

One of the central arguments of this paper is that conventional hysteresis frameworks cannot be applied to highly informal economies without some modification. Blanchard and Summers' path dependence model remains relevant in the Indian context because the pandemic shock clearly altered labour market trajectories rather than producing only temporary disruption. However, the persistence of that shock does not appear primarily through unemployment rates in the way standard hysteresis models often assume. Unemployment declined after the lockdown period, but the structure and quality of employment did not return to earlier conditions. In a labour market where displaced workers are rapidly absorbed into informal work rather than remaining openly unemployed, unemployment alone becomes an incomplete indicator of recovery. What appears more significant in the Indian case is the continued dominance of informal employment and the deterioration of earnings and employment quality after the pandemic. In this sense, studies that identify only weak or conditional hysteresis in India may be reflecting the limitations of conventional measurement frameworks rather than the absence of persistence itself.

The dual labour market framework helps explain how this adjustment took place. Workers displaced during the lockdown period did not substantially re-enter stable and secure forms of employment. Instead, many moved into self-employment, casual labour, unpaid family work, and low-productivity agricultural work. These forms of work offered immediate income and survival, but they also involved lower wages, weaker security, and fewer opportunities for upward mobility. Recovery therefore occurred through absorption into the secondary segment of the labour market rather than through reintegration into the primary segment. Informality functioned both as a buffer and as a constraint at the same time. It prevented prolonged open unemployment after the lockdowns, but it also concentrated workers within insecure forms of employment from which movement back into formal work remained difficult. The same mechanism that absorbed the shock also reproduced labour market vulnerability over time.

The broader policy implications of these findings are difficult to ignore. If labour market recovery is measured primarily through unemployment indicators, recovery may appear stronger and faster than it actually is. The groups most severely affected during the pandemic, including women, migrant workers, casual labourers, and younger workers, experienced slower and more uneven recovery trajectories and often re-entered employment under more precarious conditions. A policy framework focused only on aggregate employment numbers risks overlooking these structural shifts entirely. The evidence examined throughout this study suggests that recovery cannot be understood purely in terms of whether people are employed, but must also consider the type, stability, and quality of employment available to them. Expanding formal employment opportunities, extending social protection to informal workers, and creating institutional pathways back into secure work therefore become central to any meaningful long-term labour market recovery strategy.

At the same time, the limitations of this study should also be acknowledged. Since the paper relies on existing literature rather than original empirical analysis, it cannot determine whether the structural changes observed after the pandemic will remain permanent over a longer period of time. Much of the available research currently tracks labour market recovery only until roughly 2022 or 2023. Whether the shift toward informality eventually stabilises or begins to reverse remains uncertain. However, the evidence reviewed throughout this paper does make it difficult to argue that India's labour market has already returned to its pre-pandemic structure in any meaningful sense. The long-term permanence of these shifts may still remain open to debate, but the idea that the labour market has fully stabilised does not appear strongly supported by the evidence currently available.

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