The Persistence of Contract Labour: Evidence from Indian Manufacturing*

Rahul Singh†
SP Jain Institute of Management and Research

Vidhya Soundararajan‡
CAFRAL

Abstract

Contract labour in India is increasingly evolving from an instrument of labour cost arbitrage into a mechanism for labour intermediation and workforce management. Us-ing establishment-level data spanning 2001–2023, we document a broad-based rise in contract labour, with contract workers accounting for more than 40 percent of manufac-turing employment. Contrary to the traditional view of contract labour as low-wage and precarious employment, we find a substantial narrowing of the wage gap between con-tract and regular workers, together with improvements in minimum wage compliance. The expansion of contract labour is concentrated among larger, technologically ad-vanced, more productive, and capital-intensive establishments. Reforms that increased flexibility in direct hiring did not reduce firms' reliance on contract workers. Instead, districts with a stronger pre-existing staffing industry experienced larger increases in contract labour following reforms to the hiring of contract labour. Firms more exposed to higher formalisation and compliance requirements also experienced larger increases in contract worker shares. Overall, the evidence suggests that the continued growth of contract labour reflects the expansion of organised labour intermediation and has important implications for labour market policy.

Keywords: Contract Labour, Staffing Firms, Labour Intermediation, Minimum Wages, Manufacturing, Formalization, India.

JEL Codes: J41, J42, J31, J88, O14.

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†Singh: SPJIMR; rahul.singh@spjimr.org

‡Soundararajan: Center for Advanced Financial Research and Learning (promoted by the Reserve Bank of India); vidhya.srajan@cafral.org.in