

Indian Unemployment Conundrum-Natural Factors Endowments Puzzle

AUTHORS

Dr. Kavita Saxena
Senior Lecturer
Dept. of Economics,
D.N.(P.G.) College,
Meerut.

S. N. Ghosh
Research Scholar,
D.N.(P.G.) College,
Meerut.

<<< Abstract

India's GDP growth has recovered fast from the global crisis, nonetheless very little is reliably known on whether it has generated adequate employment opportunities or has remained jobless in nature. The rate of unemployment appears stuck at around eight per cent. An issue for policy research thus emerges, why despite India's factor endowment, organized sector has been choosing to replace labour with capital at this scale and whether there are policy distortions that encourage this which should be corrected. Thus, India has enormous challenges of not only absorbing new entrants to the job market but also clearing the backlog. Demographic disparities have accentuated the problem of unemployment/underemployment. Which is why still one of the three world's poor is Indian. To realize the cherished dream of 'inclusive growth' it is imperative to take immediate steps of capacity building of job-seekers. Vocation training should be accelerated should be accessible to all not restricted to privileged few and also it must be economically affordable. MSME is the panacea of India malady.

1. INTRODUCTION

Unemployment is the most pressing social and economic problem of our time, not least because, especially in India, it is closely related to poverty. The fallout from the global crisis has exacerbated what were already sluggish labour markets even before the crisis erupted. India's GDP growth has recovered fast from the global crisis, nonetheless very little is reliably known on whether it has generated adequate employment opportunities or has remained jobless in nature. The rate of unemployment appears stuck at around eight per cent. This rate did not budge from this level even when the economy experienced faster growth of 9.5 per cent in 2005-06 and 9.2 per cent in 2007-08. This was the case even when the global crisis impacted the economy and GDP growth plunged to 6.7 per cent in 2008-09. In advanced economies, though economic revival is occurring and yet it is fast trailed by double-digit rates of unemployment. According to the Economist, India is not too far behind with a joblessness rate of 10.7 per cent in 2009. The number of unemployed in 2009-10 is estimated at 36.2 million out of a labour force of 465.3 million on a daily status basis, if one uses the projections of the Planning Commission for the Eleventh Plan (2007-2012).

Longer-term unemployment rates are unlikely to capture the impact of the global crisis on GDP growth in India and the resultant spike upwards in joblessness. They remain low because in a country with pervasive poverty few

can afford to remain unemployed for long stretches of time. They are forced to take up self-employment or casual odd jobbing in the unorganized sector than be without work. Unemployment rates on a daily status basis that capture those seeking/available for work on a typical day in the year are certainly a better indicator than the usual status one. The 11th Five Year Plan envisages the strategy of inclusive growth. The endeavour is to demonstrably bridge the divide and avoid exclusion or marginalization of large segments of Indian population. Amongst various forms of manifestation of this divide, the divide created between employed and unemployed/ underemployed is domain of discussion in this paper. Given the cascading impact of growth of Indian populace commensurate job creation and capacity building is not happening in tandem. The divide increases in geometric progression. The paper makes an endeavour to bridge this widening gap. Planning Commission is its Report has observed inequalities amongst the employable Indians are a matter of concern and, in some cases even shame. It is a cardinal principal that behind every economic activity there is a human being. To put it simply when Indian economy has exhibited sustainable economic development it is intriguing why corresponding job creation is not happening. Employment is an area where our growth process is failing on inclusiveness. Data from the latest NSS round for 2004-05, the Economic Census 2005 and the Annual Survey of Industry substantiates our standpoint with following revelations:-

1. The average daily status unemployment rate has increased further to 8.3% in 2004-05.
2. Agricultural unemployment has increased (from 9.5% in 1993-94 to 15.3% in 2004-05) among agricultural labour households which represent the poorest groups
3. Employment in the organized sectors declined despite fairly healthy GDP growth. This is clearly a matter of concern since only organized sector jobs are regarded as desirable and lack of expansion in the category is a source of frustration for our increasingly youth who have rising expectation.
4. The wage share in our organized industrial sector has halved after the 1980s and is now among the

lowest in the world. One reason for this is increasing capital intensity of the organized sector, another is outsourcing.

An issue for policy research thus emerges, why despite India's factor endowment, organized sector has been choosing to replace labour with capital at this scale and whether there are policy distortions that encourage this which should be corrected.

2. GLOBALIZATION

Adversely impacts employment creation and wage compensation : Researches have established that labour market outcomes were generally unsatisfactory in the period of accelerated globalization: employment typically grew at much lower rates than output-or in some cases did not grow at all – and the share of wages in national income generally declined. Employment creation and a declining wage share are interdependent, in the sense that if wage growth does not keep pace with productivity growth, the expansion of domestic demand and employment creation will be constrained, and that this constraint can only be lifted temporarily, if at all , by reliance on external demand. Globalization implies that substantial number of workforce have been added to the existing workforce for producing goods, thereby disturbing previous labour market equilibriums and exerting downward pressure on wage levels, particularly for low-skilled laobur. Besides, wage formation and bargaining may have been influenced by the “threat effect” of companies to relocate or outsource parts of their production in one form or another to lower wage economies. Adoption of export-led growth strategies based on the advantage of labour costs appears to have changed the nature of competition between various companies. This has prevented and increases in wages or even reduces them in order to withstand such competition. It is argued to say that export-led growth strategies tend to lead to relative wage compression, which appears indispensable for strengthening or maintaining the international competitiveness of the producers. But keeping wages low in order to generate higher profits is self-defeating, because without a stronger purchasing power of wage earners, domestic demand will not

rise sufficiently to enable owners of capital to fully employ their capacity and thereby translate the productivity gains into profits. A potentially more successful strategy would be one oriented towards ensuring that the gains from productivity growth also accrue to labour: wages rising in line with productivity growth will cause domestic effective demand to increase and nourish a virtuous cycle of growth, investment, productivity increases and employment over time. The dynamic development of an economy is driven by profit differentials, rather than wage differentials.

Plausible causation of unemployment/ underemployment : Despite favourable economic environment the job creation along with capacity building has not moved in tandem. Cascading impact of multitude of problems has accentuated this social evil. There are individual factors like age, vocational unfitness and physical disabilities which restrict the people. External factors include technological and economic factors. There is enormous increase in the population. Every year India adds to her population afresh. More than this every year about 5 million people become eligible for securing jobs. Business field is subject to ups and downs of trade cycle globalization. Economic depression or sick industries are often close down compelling their employees to become unemployed. Technological advancement contributes to economic development. But unplanned and uncontrolled growth of technology is causing havoc on job opportunities. The computerization and automation has led to technological unemployment. Strikes and lockouts have become inspirable aspect of the industrial world today. Due to these industries often face economic loses and production comes down. Since workers do not get any salary or wages during the strike period they suffer from economic hardships. They become permanently or temporarily unemployed. Today young people are not ready to take jobs which are considered to be socially degrading or lowly. Our educational system has its own irreparable defects and its contribution to the unemployment is an open truth. Our education does not prepare the minds of young generation to become self-employed on the contrary it makes them dependent on government vacancies which are

hard to come. Our state right from the beginning of Five year plans has introduced several employment generating schemes and programmes over the years but in the absence of proper implementation and monitoring have failed to achieve the required targets. The remedial measures for reducing unemployment may lay greater emphasis on creation of opportunities for self-employment, augmentation of productivity and income levels of the working poor, shift in emphasis from creation of relief type of employment to the building up of durable productive assets in the rural areas and instead of attempting to revert somewhat to protectionist policies the pace of privatization may be accelerated.

Sustainable gainful employment critical for Inclusive growth : Generation of productive and gainful employment with decent working conditions is viewed as a crucial strategy for “Inclusive growth” (Planning Commission, 2010). The basic weakness our employment performance is the failure of the Indian economy to create a sufficient volume of additional high quality employment to absorb the new entrants into the labour force while also facilitating the absorption of surplus labour that currently exists in the agricultural sector, into higher wage, non-agricultural employment. A successful transition to Inclusive growth requires migration of such surplus workers to other areas for productive and gainful employment in the organized or unorganized sector. It is only through a massive effort at employment creation, of the right quality, and decent conditions of work for all sections of population and at all locations that a fair redistribution of benefits from growth can be achieved. This indeed is a stupendous task. Alternative policy measures focusing on different sectors and occupations, and the specific requirements of different target groups are needed to create employment on a sustainable basis. Unemployment is typically higher among the youth and the educated that look for better quality of jobs. Further, it is equally important to make the employment opportunities accessible to all, especially poor and weaker sections of the society. This would require a proper understanding of the nature and characteristics of the existing and emerging labour market situation in India so that along with overall employment growth, issues relating to the weaker

and is advantaged groups are adequately addressed in all relevant policies. In India more than 70% of the combined labour force including organized and unorganized sector is illiterate or educated below the primary level (NSSO 61st Round). The demographic factors are significantly contributing to the divide between employed and unemployed/underemployed in India.

To achieve 'inclusive growth' or for that matter to eradicate poverty in India, it is equally important to make the employment opportunities also accessible to under-privileged section of the society. It is a common knowledge that caste ridden Indian society, majority of menial workforce belong to under-privileged strata of the society, being uneducated, unorganized they are more vulnerable to exploitation. Being citizens of India, they are equally entitled to reap the benefits of economic growth as the urban or semi-urban populace is enjoying. To encompass this segment of the Indian society it requires a proper understanding of the nature and characteristics of the labour market situation in India so that along with overall employment growth, issues relating to such disadvantaged groups are adequately addressed in all relevant policies. Besides, women participation in labour market has been typically low in India. Only 25 to 30% women in rural and 15 to 18% in urban areas participate in labour market. One of the reasons of low participation of women in labour force is the non-recognition of a number of women centric works as economic activities (such as cooking, collection of fuel and fodder, and utensils cleaning etc.). Moreover, variety of social and family related constraints compel women to confine themselves to household activities at their prime working age. Early exit of women (probably post marital age) from labour market is particularly reflected in urban areas where women face inadequate social and family support system. Moreover, women agricultural workers in families where the male head has migrated, also require special attention given the need for credit and other inputs if they are self-employed in agriculture or for wage employment if they do not have land.

'Capacity Building' critical for gainful employment : While it is acknowledged that in a

competitive market environment and interplay of market forces, there shall be perpetual gap of job-creation and job-seekers in India. The capacity building of gainful employment is also an area of much concern and debate. There is a mismatch between the skilled manpower required of the youth passing out from our universities and colleges do not have the specific skill sets required by various sectors in the market. The skill shortage in the India economy today is largely due to neglect of vocational education. Vocational education consists basically of practical courses through which one gains skills and experience directly linked to a career in future. It helps students to be skilled and in turn, offers better employment opportunities. In India, vocational education falls under the charge of the ministry of human resources development (MHRD). The government of India in recent years has laid a lot of emphasis on streamlining vocational education so that it fulfills the emerging need of the market by focusing on employability skills.

Vocational education would ensure inclusive growth in India by the following ways:-

- Will enhance the appropriate skill-sets on job-seekers and also existing workers;
- Will prepare the youth for a vocation of their choice;
- Will build up a formidable work force of international quality, which would be in demand not only in India but also in all other countries. ICT sector a striking example. In the manufacturing and service sector, there are hundreds of skills and vocations for which there is worldwide shortage.
- Will reduce unemployment/underemployment by supplying world-class skilled people.
- Will reduce cost and improve the productivity of services and manufacturing by providing skilled manpower to international standards.

Needs for Promotion of Micro-Enterprise : Even the years after graduation, over 60% of all graduates remain unemployed. Although a significant proportion of apprentices find employment, close to two-thirds is not employed in the trade for which they were trained in-a third of these had been trained in obsolete trades. There appears to be three reasons for this: (a) limited growth and labour demand in the manufacturing sector, (b) mismatch

between the skills attained and those actually in demand, and (c) mismatch between the skills taught and the graduates' own labour market objectives (Skill Development in India, January 2008, Report No. 22, The World Bank). Looking at the poverty, unemployment and labour market scenario India is admittedly facing almost a stagnated employment growth in the industrial sector and declined employment growth in the agricultural sector. The service sector has increased its share of employment marginally but not adequate to employ the large percentage of unemployed or under-employed.

The panacea of this ever increasing malady is to promote MSME sector in the country. MSME is poised to address the issue of poverty, unemployment and inclusive growth. Several studies suggest that in India, millions of self-employed are graduated to become micro-entrepreneurs (essentially a self-employed who has created jobs for 5-10 persons through her/his micro-enterprise through experiential learning and with the support of external institutions and factors such as skills development, financing, mentoring and handholding support. MSME largely belongs to the unorganized sector can create bulk of employment in the country next to agriculture. Recognizing the significance of MSMEs to the India economy, our policy makers have recognized this sector as an important constituent of the national economy, contributing significantly to employment expansion and poverty alleviation. The small scale industries in India, including the tiny or micro industries and service/business entities, collectively referred as micro and small enterprises (MSEs), have a long history of promoting inclusive, spatially widespread and employment-oriented economic growth. Empirical evidences have established that the share of the self-

employed workers in the Indian workforce has increased tremendously of which a large percentage are economically poor. Integrated multi-skilled courses can be designed to promote micro-entrepreneurship to facilitate self-employment and at the same time, enable micro-entrepreneurs in creating wealth as well as employment opportunities. To run a small business, besides occupational skill, multi-skills include the soft-skills that consist of developing skills in financial management, communications, human resources, understanding of market and basic knowledge of computers, statutory and legal provisions. Implementation of the National Skills Development Policy, 2009, formation of National Skills Development Council and promotion of public-private partnerships are the some of the important measure initiated by the Government.

3. CONCLUDING OBSERVATIONS

Annually 12.8 million work forces are entering into the labour market for the first time along with the backlog of 49 million unemployed work forces looking for employment opportunities in the organized and unorganized sector, which is more than the entire population of UK, France and Italy (CIA World Fact Book). Thus, India has enormous challenges of not only absorbing new entrants to the job market but also clearing the backlog. Demographic disparities have accentuated the problem of unemployment/underemployment. Which is why still one of the three world's poor is Indian. To realize the cherished dream of 'inclusive growth' it is imperative to take immediate steps of capacity building of job-seekers. Vocation training should be accelerated should be accessible to all not restricted to privileged few and also it must be economically affordable. MSME is the panacea of India malady.

REFERENCES

1. *Inclusive Growth, Vision and Strategy; Planning Commission, Govt. of India.*
2. *ICFAI Reader, various issues*
3. *Economic & Political Weekly, various issues*
4. *Financial Empress, various issues*
5. *plannincommission.nic.in*
6. *www.worldbank.org*
7. *www.imf.org*
8. *www.unctadindia.org*
9. *msme.gov.in*