

Unemployment situation in India: A Critical Analysis

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Abstract:

India is developing largest democratic country in the world. In India, 63% of the total population are in the working age group (15-59 years) but such a big labor force is not being properly utilized so unemployment becomes a great challenge for India. There are more than 6 crores well educated youth in India who are unemployed. The unemployment rates in urban areas are higher than those in rural areas. In rural areas, the UR is 5.3 per cent, whereas in urban areas, the UR is 7.8 per cent according to the usual status. The overall unemployment rate is 6.1 per cent in India according to the usual status. Given India's demographic dividend and urgency to create jobs, the manufacturing sector could prove to be a large employer that provides decent income opportunities. The country should strive to accelerate investments and exports to take advantage of the recovery in global growth. The present paper has focused on causes of unemployment, various types of unemployment present scenario and some possible measures have been suggested.

Key Words: Unemployment, Usual status, Current Weekly status, demographic dividend

Introduction:

Unemployment is a common economic malady faced by each and every country of the world, irrespective of their economic system and the level of development achieved. But the nature of unemployment prevailing in underdeveloped or developing countries sharply differs to that of developed countries of the world. While the developed countries are facing unemployment, mostly of Keynesian involuntary and frictional types but the underdeveloped or developing countries like India are facing structural unemployment arising from high rate of growth of population and slow economic growth.

Objective of the Study:

- To study the nature and causes of unemployment in India,
- To present a critical overview of the current unemployment status in India,
- To suggest policy prescriptions for the problem of unemployment.

Research Methodology:

The present paper is mainly desk type research where data were collected from secondary sources. Information collected by me from the books, internet, reference books, published data of World Bank report etc. Labour Bureaus and ILOs report on employment and unemployment survey, OECD report on economic outlook, Annual Periodic Labour Force Survey (PLFS), Centre for Monitoring Indian Economy (CMIE) Report, NSSO Report etc. were also used for the analysis.

Nature of unemployment in India:

India is one of those ill-fated underdeveloped countries which are suffering from a huge unemployment problem. But the unemployment problem in India is not the result of deficiency of effective demand in Keynesian term but a product of shortage of capital equipment's and other complementary resources accompanied by high rate of growth of population. Present unemployment problem in India is mostly structural in nature, which can be broadly classified into: a) Rural Unemployment b) Urban Unemployment.

Rural Unemployment: In India this type of unemployment is more dominant in the rural areas. This is again of two types: (i) Seasonal Unemployment (ii) Disguised or Perennial Unemployment.

Seasonal Unemployment: In the absence of multiple cropping system and subsidiary occupation in the rural areas, a large number of rural populations have to sit idle five to seven months in a year. This phenomenon is commonly known as seasonal unemployment. Seasonal unemployment is also very common in some agro based industries viz., tea industry, jute mills, sugar mills, oil pressing mills, paddy husking mills etc.

- (i) **Disguised or Perennial Unemployment:** Indian agriculture suffers from disguised or perennial unemployment due to excessive pressure of population and in absence of other job opportunities available in the rural areas side by side. In disguised unemployment apparently it seems that everyone is employed but in reality sufficient full time work is not available for all.

a) **Urban Unemployment:** Urban Unemployment has two aspects (i) Industrial Unemployment (ii) Educated or Middle class Unemployment.

- (i) **Industrial Unemployment:** With the increase in the size of urban population and with exodus of population in large number from rural to the urban industrial areas to seek employment, industrialisation because of slow growth could not provide sufficient employment opportunities to the growing number of urban population leading to a huge industrial unemployment in the country.
- (ii) **Educated or Middle-class Unemployment:** With rapid expansion of general education due to benevolence of the government and lack of alternative job opportunities due to un-mindful economic reforms in the country the number

of out-turn of educated people is increasing day by day leading to educated unemployment.

Main causes of unemployment in India:

The following are the main causes of unemployment: (i) Caste System: In India caste system is prevalent. The work is prohibited for specific castes in some areas. In many cases, the work is not given to the deserving candidates but given to the person belonging to a particular community. So this gives rise to unemployment. (ii) Slow Economic Growth: Indian economy is underdeveloped and rate of economic growth is very slow. This slow growth fails to provide enough unemployment opportunities to the increasing population. (iii) Increase in Population: Constant increase in population has been a big problem in India. It is one of the main causes of unemployment. (iv) Agriculture is a Seasonal Occupation: Agriculture is underdeveloped in India. It provides seasonal employment. Large part of population is dependent on agriculture. But agriculture being seasonal provides work for a few months. So this gives rise to unemployment. (v) Joint Family System: In big families having big business, many such persons will be available who do not do any work and depend on the joint income of the family. Many of them seem to be working but they do not add anything to production. So they encourage disguised unemployment. (vi) Failure of Cottage and Small industries: The industrial development had adverse effect on cottage and small industries. The production of cottage industries began to fall and many artisans became unemployed. (vii) Slow Growth of Industrialisation: The rate of industrial growth is slow. Though emphasis is laid on industrialisation yet the avenues of employment created by industrialisation are very few. (viii) **Less Savings and Investment:** There is inadequate capital in India. Above all, this capital has been judiciously invested. Investment depends on savings. Savings are inadequate. Due to shortage of savings and investment, opportunities of employment have not been created. (ix) **Inadequate availability of means of production:** Inadequate availability of means of production is the main cause of under employment. People do not get employment for the whole year due to shortage of electricity, coal and raw materials. (x) Defective Planning: Defective planning is the one of the cause of unemployment. There is wide gap between supply and demand for labour. No Plan had formulated any long term scheme for removal of unemployment. (xi) Inadequate Irrigation Facilities: Due to lack of irrigation, large area of land can grow only one crop in a year. Farmers remain unemployed for most time of the year. (xii) Immobility of labour: Mobility of labour in India is low. Due to attachment to the family, people do not go to far off areas for jobs. Factors like language, religion, and climate are also responsible for low mobility. Immobility of labour adds to unemployment. All these factors add to unemployment.

Current Unemployment Status in India:

- India's unemployment rate hit a 3-year-high of 8.4 per cent in August 2019, reveals data released by think-tank Centre for Monitoring Indian Economy (CMIE). The weekly unemployment rate in the country stood between 8 and 9 per cent in August 2019, as compared to 7-8 per cent range observed in July, CMIE said in a report on Wednesday. The agency noted that the unemployment rate has hit the highest level since September 2016. According to CMIE, the urban unemployment rate was at 9.6 per cent, and rural stood at 7.8 per cent during the month under review. During the month of August, employment was nearly 2 per cent higher than it was in August 2018, aided by growth in rural India. The year-on-year employment growth in rural India stood at 2.9 per cent in August 2019, while urban India reported a 0.2 per cent decline, it said. The labour participation rate, one of the factors behind unemployment rate, has risen slowly and steadily to 43.35 per cent in August 2019, from 42.46 per cent in October 2018. It has recovered from the combined shock of demonetisation and GST that led to a rise in unemployment rate in India, the report said. The increase in labour participation rate is a healthy sign as it hopefully reflects a confidence in labour that they may find jobs, CMIE said in its report. "However, this increase in labour force participation rate is not matched with an increase in the employment rate. The difference between the two has been rising. More people are seeking employment but not as many people are finding employment," it said. "Investment conditions have been weak. New investments into large and modern enterprises are important to absorb the rising working age population into the labour markets. However, data from the annual financial statements of companies and from announcements by entrepreneurs do not show any pick-up in investments. Growth in good quality jobs is therefore very poor," added in its report. According to CMIE, if labour continues to face a rising unemployment rate, and poor employment opportunities, it may start getting discouraged from entering the labour markets.

The latest Periodic Labour Force Survey (PLFS) states that the unemployment rate (UR) in both rural and urban India is at its highest since 1972. The unemployment rates among men and women in both rural and urban groups are also the highest ever. The increase in the UR is more than three times among rural men and more than double among rural

women according to the usual status since 2011-12. In urban areas; the UR among men is more than twice and has increased twice among women since 2011-12. It is to be noted that the UR between 1972 and 2012 was almost static or did not have many differences (See Table 1). Besides, the UR rose sharply among youth of ages between 15-29 years and those who got better education. The measurement of unemployment is based on the Usual status and Current Weekly status. The Usual Status (ps+ss) approach to measuring unemployment uses a reference period of 365 days i.e. one year preceding the date of the survey of the National Sample Survey Organisation (NSSO) for measuring unemployment. The Current Weekly Status (CWS) approach to measuring unemployment uses seven days preceding the date of survey as the reference period. A person is considered to be employed if he or she pursues any one or more gainful activities for at least one hour on any day of the reference week. The Union Ministry of Statistics and Programme Implementation had constituted PLFS under the chairmanship of Amitabh Kundu. The data was collected by NSSO from July 2017 to June 2018. The survey was spread over 12,773 first-stage sampling units (7,014 villages and 5,759 urban blocks) covering 1,02,113 households (56,108 in rural areas and 46,005 in urban areas) and enumerating 4,33,339 persons (2,46,809 in rural areas and 1,86,530 in urban areas). The unemployment rates in urban areas are higher than those in rural areas. In rural areas, the UR is 5.3 per cent, whereas in urban areas, the UR is 7.8 per cent according to the usual status. The overall unemployment rate is 6.1 per cent in India according to the usual status. According to CWS, the rural employment rate is 8.5 per cent whereas the urban rate is 9.6 per cent. The overall unemployment rate is 8.9 per cent. In urban areas, the unemployment rates for females are higher than those for males. (See table below)

Table 1: Unemployment rate (in per cent) according to the usual status and current weekly status from 1972-73 to 2017-18

round (year)	rural				urban			
	male		female		male		female	
	usual status (ps+ss)	CWS	usual status (ps+ss)	CWS	usual status (ps+ss)	CWS	usual status (ps+ss)	CWS
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
PLFS (2017-18)	5.8	8.8	3.8	7.7	7.1	8.8	10.8	12.8
68 th (2011-12)	1.7	3.3	1.7	3.5	3.0	3.8	5.2	6.7
66 th (2009-10)	1.6	3.2	1.6	3.7	2.8	3.6	5.7	7.2
61 st (2004-05)	1.6	3.8	1.8	4.2	3.8	5.2	6.9	9.0
55 th (1999-00)	1.7	3.9	1.0	3.7	4.5	5.6	5.7	7.3
50 th (1993-94)	1.4	3.1	0.9	2.9	4.1	5.2	6.1	7.9
43 rd (1987-88)	1.8	4.2	2.4	4.4	5.2	6.6	6.2	9.2
38 th (1983)	1.4	3.7	0.7	4.3	5.1	6.7	4.9	7.5
32 nd (1977-78)	1.3	3.6	2.0	4.1	5.4	7.1	12.4	10.9
27 th (1972-73)	1.2	3.0	0.5	5.5	4.8	6.0	6.0	9.2

Note: The figures are to be read along with the explanatory note for comparability.

Annual Report: PLFS, 2017-18

The unemployment rate among youth between 15 and 29 years has risen sharply since 2011-12. Among rural males and females, the UR is almost three times since 2011-12, whereas among urban males and females, this rate is more than double. The UR has also sharply increased among those who are more educated. Since 2011-12, the UR among rural males has increased by almost three times, from 1.7 per cent to 5.7 per cent. Those who have higher degree of education and those who are completely not-literate have witnessed almost the same level of unemployment. Interestingly, unemployment among rural not-literate females has reduced and among urban females, the number of those who are literate up to primary-level jobs is the same as 2011-12. (See table below)

Table 2: Unemployment rate (in per cent) among youth (15 to 29 years) in usual status during 2004-05, 2009-10, 2011-12 and 2017-18

category of persons	NSS round (period)			
	61 st round (2004-2005)	66 th round (2009-2010)	68 th round (2011-2012)	PLFS (2017-18)
(1)	(2)	(3)	(4)	(5)
rural male	3.9	4.7	5.0	17.4
rural female	4.2	4.6	4.8	13.6
urban male	8.8	7.5	8.1	18.7
urban female	14.9	14.3	13.1	27.2

Note: The figures are to be read along with the explanatory note for comparability.

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Among social groups, the highest UR is among the 'General' or 'Others' category — 6.7 per cent. This groups is followed by Schedule Castes (6.3 per cent), Other Backward Classes (6 per cent) and Scheduled Tribes (4.3 per cent). Among religious groups, Christians have the highest UR in both urban and rural areas. In rural areas, Christians have a UR of 7.4 percent; Muslims have a UR of 6.5 per cent, Sikhs 6.3 per cent and Hindus 5.2 per cent. In urban areas, Christians have a UR of 11 per cent, Sikhs 9.1 per cent, followed by Muslims 8.5 per cent and Hindus 7.6 per cent.

Table 3: Unemployment rates (in per cent) according to usual status for the persons of age 15 years and above with different educational attainments during 2004-05, 2009-10, 2011-12 and 2017-18

general educational level	unemployment rate							
	2004- 2005	2009- 2010	2011- 2012	PLFS (2017 -18)	2004- 2005	2009- 2010	2011- 2012	PLFS (2017- 18)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
rural male					rural female			
not literate	0.3	0.3	0.5	1.7	0.2	0.0	0.2	0.1
literate & up to primary	1.0	1.0	1.0	3.1	1.1	0.5	0.3	0.6
middle	1.6	1.8	1.8	5.7	3.4	2.3	2.5	3.7
secondary & above	4.4	3.5	3.6	10.5	15.2	11.8	9.7	17.3
all	1.6	1.6	1.7	5.7	1.8	1.6	1.6	3.8
urban male					urban female			
not literate	1.0	1.0	0.7	2.1	0.3	0.9	0.4	0.8
literate & up to primary	2.1	1.6	1.9	3.6	2.9	0.5	1.3	1.3
middle	4.2	2.6	2.2	6.0	8.0	3.7	3.0	5.1
secondary & above	5.1	3.6	4.0	9.2	15.6	12.2	10.3	19.8
all	3.7	2.8	3.0	6.9	6.9	5.7	5.3	10.8

Note: The figures are to be read along with the explanatory note for comparability.

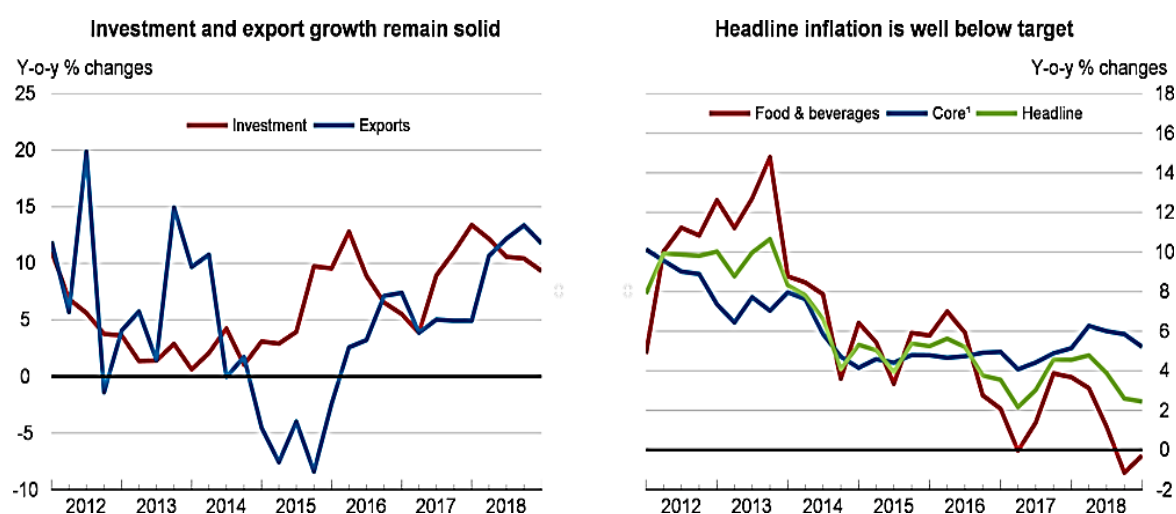
Annual Report, PLFS, 2017-18

World view of Unemployment situation in India:

World Bank recently estimated that India needs to create 8.1 million jobs a year to maintain its employment rate, which has been declining. Given India's demographic dividend and urgency to create jobs, the manufacturing sector could prove to be a large employer that provides decent income opportunities. For example, rapid modernisation of the food processing sector could be one way of increasing its export potential as well as improving employment elasticity-to-growth and investment in it. With a rise in per capita income, domestic demand for processed food would also rise, making the sector a viable option for pushing manufacturing growth and employment.

- According to an OECD report on economic outlook released in May 2019, Economic growth will regain strength and approach 7½ per cent by 2020. The new income scheme for small farmers will support rural consumption. Investment growth will accelerate as capacity utilisation rises, interest rates decline, and geopolitical tensions and political uncertainty are assumed to wane. Lower oil prices and the recent appreciation of the rupee will reduce pressures on inflation and the current account.

- Monetary policy could be loosened somewhat as headline inflation remains well below target and inflation expectations are adjusting down. Rising public sector borrowing requirements reflect the implementation of new welfare schemes, sluggish tax revenue, and growing financial needs of public enterprises and banks. Reducing the high public debt-to-GDP ratio would require improving the collection of the Goods and Services



Tax and broadening the personal income tax base. Ensuring a swift resolution of bankruptcy processes would help contain non-performing loans and boost productivity by promoting the reallocation of resources to more productive firms and sectors. Improving the quality and timeliness of economic data, in particular on employment and public finances, would help in designing better policies.

Source: OECD Economic Outlook 105 database; and Central Statistics Office.

- India's economy has recovered from the withdrawal of large denomination bank notes and the Goods and Services tax. Growth is expected to accelerate from 6.7 in 2017 to 7.3% in 2018 and to subsequently stabilize supported by a sustained recovery in private investment and private consumption. The country should strive to accelerate investments and exports to take advantage of the recovery in global growth. Every month, the working age increases by 1.3 million people and India must create 8.1 million jobs a year to maintain its employment rate, which has been declining based on employment data analyzed from 2005 to 2015, largely due to women leaving the job market.

Policy Recommendations:

(1) Appropriate Macro Policies

Appropriate macro policies are important for generating employment. In other words, one has to examine whether macro policies in India are pro-employment and pro-poor in the post-reform period. Investments are important for higher growth which can improve employment if invested in labour intensive sectors. One of the reasons for the low growth in employment in the post-reform period could be low growth in public investment.

Fiscal reforms are supposed to reduce fiscal deficit, improve social sector expenditures and capital expenditures. These are expected to improve employment prospects. Recent improvements in tax/GDP ratio have increased investments and expenditures in social sectors.

Trade liberalization is expected to improve exports which can generate employment. However, it depends on whether the benefits percolate to unskilled workers or skilled workers. If only IT sector benefits, overall employment prospects are not bright. The evidence seems to suggest that the employment in organized sector manufacturing has not improved much.

Financial sector liberalisation led to decline in credit to agriculture sector, small and marginal farmers and weaker sections in the post-reform period. This led to lower growth in agriculture and aggravates the situation of disguised unemployment. Therefore, this sector needs to be taken care of by the government through adopting decisive policies of huge investment for removing impediments in the way of attaining sustainable agriculture production and productivity. Developing countries should learn from China on agricultural growth, rural non-farm employment, public investment and human development (see Rao, 2005). The impact of growth on poverty reduction is quite significant in China.

(2) Improvement in Education

India has not been able to take advantage of 'demographic dividend' because of low education and skills. It is high time to understand that we can only reap this demographic dividend only if we invest on human resource development and skill formation in a massive way and create productive employment for our relatively young working population.

Improvements in skills and vocational training are vital. To continue competitive advantage and ensure a continuous supply of quality manpower, we need large investments in public sector institutions of higher learning. This should be accompanied by fundamental reform of the curriculum as well as service conditions to attract a dedicated and qualified faculty.

(3) Active Labour Market Policies

Skill improvement is one of the important things needed in active labour market policies. Expanding capacity through private sector initiatives in higher learning needs to be explored while maintaining quality. Conditions of work and promotion of livelihoods are important for raising the incomes of youth workers. Since majority is in the informal sector, protective measures are also required. Minimum Level of Social Security like life insurance, health insurance has to be given to unorganized workers. Self help groups and micro finance institutes should be encouraged for livelihood promotion. Cluster development should be undertaken for improvement in productivity of self employed. Existing self employment programmes should be strengthened and retuned where participatory planning along with accountability check must be made binding on the people taking decision at the grassroots level.

To conclude, India is in the midst of a process where it faces the window of opportunity created by the demographic dividend. The “demographic dividend” argument ignores the fact that available workers are not automatically absorbed to deliver high growth. Savings and investments may increase because of reduction in dependency ratio. However, “deficit” in education and “employability” of the workforce in India may hamper the advantages of this dividend. Related to this are problems of working poor, unemployment and joblessness among youth. This needs to be remedied in order to take advantage of the opportunity of growth that the demographic dividend is supposed to give to India.

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