Solving India's Job Crisis

This editorial is based on **"India's jobs crisis, the macroeconomic reasons"** which was published in The Hindu on 25/12/2023. The article discusses that India's jobs crisis is not only due to the pandemic, but also due to the macroeconomic policies of the government.

For Prelims: Wage employment, Self employment, Disguised unemployment, Kaldor-Verdoorn coefficient

For Mains: Reasons behind Unemployment in India, Jobless Growth in India's Case, Way Forward to Address Unemployment in India

India's jobs crisis is a serious and persistent problem that affects millions of young and educated people who are unable to find suitable employment in the formal economy. According to the **Centre for Monitoring Indian Economy (CMIE),** an independent think tank, India's unemployment rate was more than 7% for most of 2021 and 2022, and reached 7.9% in December 2022. This is much higher than the global average and most of the emerging economies.

What are the Types of Employment that Prevail in India?

There are **two types of employment** that prevail in an economy such as India:

- The first is **wage employment** which is a result of labour demanded by employers in their pursuit of profits. It can be further classified as:
    - **Regular Wage Jobs:** These are **formal, structured positions** where employees receive a fixed salary or wages on a regular basis.
        - This includes jobs in government organisations, private companies, and multinational corporations.
    - **Casual or Daily Wage Labor:** Many workers in India are engaged in daily wage labour, especially in sectors like construction, agriculture, and unorganised labour markets.
        - These jobs often lack job security and come with variable income.
- The second is **self-employment** where labour supply and labour demand are identical, i.e., the worker employs him/herself. It can be further divided into:
    - **Entrepreneurship:** Many individuals in India are engaged in entrepreneurial activities, running small businesses or enterprises.
        - This could include small shops, local services, or manufacturing units.
    - **Farmers:** Agriculture is a significant source of self-employment in India. Many individuals own and operate their farms, either independently or as part of a family-run enterprise.
    - **Freelancing and Informal Work:** With the rise of the **gig economy,** freelancing and informal work arrangements have become more common.
        - This includes individuals working as freelancers, consultants, or in part-time roles.

What are the Reasons behind Unemployment in India?

- **Stagnant Employment Growth Rate:** Over the last four decades, there has been a more or less **stagnant employment growth rate of salaried workers** in the non-agricultural sector.
    - This indicates a lack of significant expansion in formal employment opportunities.
- **Disguised Unemployment**: The Indian economy has had open unemployment (job-seekers without work) and high levels of informal employment, including self-employed and casual wage workers.
    - The latter is known as "**disguised unemployment**" because it resembles open unemployment and reflects a shortage of suitable job opportunities in the formal sector.
- **Labour Demand Determinants:** The demand for labour in the formal non-agricultural sector depends on two key factors.
    - Firstly, it is influenced by the amount of output that firms are able to sell. If demand for output is low, **firms are less likely to hire additional workers.**
    - Secondly, the level of technology plays a role, as the introduction of labour-saving technologies allows firms to produce the same amount of output with fewer workers.
        - While this increases efficiency, it can **lead to a decrease in the number of jobs available in the formal sector.**
- **Policy Focus on Output Growth:** Economic policies in India have traditionally been framed in terms of output growth (GDP or value-added), which may not necessarily address the employment generation challenge.
    - **Policies solely focused on output growth may not result in a corresponding increase in employment opportunities,** especially if labour productivity growth rate rises.
- **Lack of Responsiveness of Employment Growth Rate:** In India, the employment growth rate of the formal and non-agricultural sector remained unresponsive despite a significant rise in the GDP growth rate and the value added growth rate during the 2000s as compared to the decade of the 1980s and 1990s.
    - The **lack of responsiveness of employment growth rate to changes in output growth rate reflects a phenomenon of jobless growth**. It indicates a strong connection between labour productivity growth rate and output growth rate.

What is the Jobless Growth in India's Case?

- As an economy grows, it is generally seen that it also becomes more productive. That is, in the process of producing a greater amount of total output, firms become capable of producing more output per worker. This happens because of what economists call "economies of scale".
    - As firms produce more output, they find it easier to adopt labour-saving technologies. But the extent to which labour-saving technologies are introduced depends on the bargaining power of labour.
- There are two **types of jobless growth** regimes based on the tightness of the connection between output growth and labour productivity growth.
    - **Weak Responsiveness of Employment to GDP Growth:** The possibility of jobless growth in this case emerges exclusively on account of automation and the introduction of labour-saving technology.
        - But employment growth rate in such countries would necessarily increase if output growth rate happens to increase.
        - Under **weak responsiveness of labour productivity, the positive effect of GDP growth rate on employment would dominate** over the adverse effect of labour-saving technologies.
        - Here, the solution to the jobs crisis is just more rapid economic growth.
    - **High Responsiveness of Employment to GDP Growth:** In India's case, the **responsiveness of labour productivity growth rate to output growth rate is high.**
        - Here, the positive effect of output growth rate on employment fails to counteract the adverse effect of labour-saving technologies.
        - Employment growth rate in such countries cannot be increased simply by increasing GDP growth rate.
    - **Kaldor-Verdoorn Coefficient:** The Kaldor-Verdoorn coefficient **measures the extent to which labour productivity growth** responds to output growth.

- A higher coefficient indicates a stronger relationship between the two.
- The assertion that **India's non-agricultural sector has a higher Kaldor-Verdoorn coefficient** compared to other developing countries implies that the country experiences a more pronounced form of jobless growth.

Macroeconomic Policy Frameworks:

- **The Keynesian Theory:** The central contribution of the Keynesian revolution in macroeconomics was to highlight the role of aggregate demand as the binding constraint on employment.
  - **Fiscal policy** was perceived to increase labour demand by stimulating output. The developing countries that inherited a dual economy structure during their independence, confronted additional constraints on output.
- **The Mahalanobis Strategy:** This identified the availability of capital goods as the binding constraint on output and employment, putting forward the policy for heavy industrialisation.
- **Structuralist Theories**: The structuralist theories based on the experiences of developing countries highlighted the possibility of agrarian constraint and the balance of payment constraints.
  - Both these constraints led to key policy debates in India, particularly during the decade of the 1970s and early 1990s.
- Nonetheless, what remained common to all these different frameworks was the presumption that increasing the output growth rate in the non-agricultural sector would be a sufficient condition for increasing the employment growth rate in the formal sector.
  - But the employment challenge can no longer be met only through more rapid GDP growth.

What should be Done to Address Unemployment in India?

- **Implement a National Employment Policy (NEP):** The evidence suggests that the **employment challenge can no longer be met only through more rapid GDP growth.** Rather, a separate policy focus is needed on employment in addition to the focus on GDP growth.
  - Such employment policies will need both demand side and supply side components.
  - For example, to the extent firms in India find it easier to automate due to a lack of public provisioning of education and health of adequate skilled labour, increasing the quality of the workforce through better care, as well as bridging the skills gap, are important.
  - On the demand side, direct public job creation will be needed.
- **Introducing an Urban Version of MGNREGA:** It can provide a safety net and a source of income for the urban poor. The scheme can be implemented for the urban poor who are often engaged in informal and precarious jobs. This can provide them with a minimum level of income security and also create public assets and services in the urban areas.
  - Rajasthan has recently introduced an **urban variant of the MGNREGA.**
- **Increase Industrialization and Investment in Agriculture:** It can create more jobs and boost productivity. One of the most sure-shot remedies of the unemployment situation in India is rapid industrialization.
  - Increased number of industries translates effectively into an increased number of employment opportunities.
  - Moreover, investment or capital formation in agriculture can also generate employment directly and indirectly through multiplier effects.
- **Diversifying Agriculture and Promoting Agro-Processing Industries:** It can enhance rural income and employment opportunities. There is an **urgent need for a relative shift from growing of crops to horticulture, vegetable production, floriculture, animal husbandry, fisheries etc**. which are more labour absorbing and higher income-yielding.
  - In addition to this, **promotion of agro-processing industries** for export purposes has a large employment potential.
  - These industries can also reduce the wastage of agricultural produce and increase the value addition.
- **Expanding Education and Health Care:** It can improve human capital and generate employment in the social sector. The expansion of education and health care not only promotes accumulation of human capital and thereby contributes to growth of output, it will also generate a

good deal of employment opportunities.

- Reforming the education system and providing vocational and technical training will enhance the skills and employability of the workforce.
  - Vocational and technical training can **help the students acquire the skills and knowledge required** for specific occupations and industries.
  - This can **reduce the mismatch between the demand and supply of skilled labour** and improve the productivity and competitiveness of the economy.
- **Developing the Rural Areas and Decentralising Development:** It can reduce the migration pressure on urban areas and create more balanced growth.
  - Development of the rural areas can help mitigate the migration of the rural people to the urban areas thus decreasing the pressure on the urban area jobs.
  - Decentralised development can also **ensure that the benefits of growth are shared more equitably** among different regions and sectors.
  - This can also foster local participation and empowerment of the people.

Drishti Mains Question:

Analysing the persistent challenges of unemployment in India, particularly related to jobless growth, examine the factors contributing to the high unemployment rates.

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Prelims:

Q. Disguised unemployment generally means (2013)

(a) large number of people remain unemployed
(b) alternative employment is not available
(c) marginal productivity of labour is zero
(d) productivity of workers is low

Ans: (c)

Mains:

Q. Most of the unemployment in India is structural in nature. Examine the methodology adopted to compute unemployment in the country and suggest improvements. **(2023)**