

Subject – Indian Economy - I

Notes Unit 3 Part A

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Meaning of Unemployment -

Unemployment is a term referring to individuals who are employable and actively seeking a job but are unable to find a job. Included in this group are those people in the workforce who are working but do not have an appropriate job. Usually measured by the unemployment rate, which is dividing the number of unemployed people by the total number of people in the workforce, unemployment serves as one of the indicators of a country's economic status.

The term “unemployment” is often misunderstood, it as it includes people who are waiting to return to a job after being discharged, yet it does not include individuals who have stopped looking for work in the past four weeks due to various reasons such as leaving work to pursue higher education, retirement, disability, and personal issues. Also, people who are not actively seeking a job but do want to work are not classified as unemployed.

Types of Unemployment –

There are three main types of unemployment – cyclical, structural and frictional unemployment. In practice, these cannot be measured directly, and they can often overlap, but they provide a useful way of thinking about unemployment.

Cyclical Unemployment -

Cyclical unemployment occurs with changes in economic activity over the business cycle. During an economic downturn, a shortfall of demand for goods and services results in a lack of jobs being available for those who want to work. Businesses experiencing weaker demand might reduce the amount of people they employ by laying off existing workers, or hiring fewer new workers. As a result, people looking for work will also find it harder to become employed. The opposite situation occurs when demand strengthens. Cyclical unemployment is often described as being medium term in nature (one to 12 months). Examples can be seen in the unemployment rate rising sharply with the early 1990s recession, declining to low levels by the mid-2000s before rising again around the time of the global financial crisis. An increase in cyclical unemployment might suggest the economy is operating below its potential. With more people competing for jobs, businesses might offer lower wage increases, which would contribute to lower inflation. Policies that stimulate aggregate demand, such as expansionary monetary policy, can help reduce this type of unemployment (because businesses experiencing stronger demand are likely to employ more people).

Structural Unemployment –

Structural unemployment occurs when there is a mismatch between the jobs that are available and the people looking for work. This mismatch could be because jobseekers don't have the skills required to do the available jobs, or because the available jobs are a long way from the jobseekers. Workers may become unemployed if they work in industries that are declining in size or have skills that could be automated as a result of large-scale technological advances. It may be difficult for them to find work in another industry and they may need to develop new skills or move to a region that has more opportunities. For example, there has been a noticeable decline in the share of people employed in routine manual jobs over recent decades with some of these jobs being automated because of advances in technology. The manufacturing industry is an example of an industry that has a high share of routine manual jobs and its size in the economy has declined (both in terms of production and employment). Structural unemployment tends to be longer lasting than other types of unemployment. This is because it can take a number of years for workers to develop new skills or move to a different region to find a job that matches their skills. As a result, workers who are unemployed because of structural factors are more likely to face long-term unemployment (for more than 12 months).

In contrast to cyclical unemployment, structural unemployment exists even when economic conditions are good. In theory, this type of unemployment should not directly influence wages or inflation and is best addressed through policies that focus on skills and the supply of labour.

Frictional Unemployment -

Frictional unemployment occurs when people move between jobs in the labour market, as well as when people transition into and out of the labour force. Movement of workers is necessary for a flexible labour market and helps achieve an efficient allocation of labour across the economy. However, people may not find jobs immediately and need to invest time and effort in searching for the right job. Businesses also spend time searching for suitable candidates to fill job vacancies. As a result, people looking for jobs are not matched immediately with vacancies and may experience a period of temporary unemployment. This type of unemployment is generally shorter term (less than one month). Frictional unemployment is likely to occur at all points of the business cycle and, like structural unemployment, may not influence wages or inflation.

These three types of unemployment are not independent of each other. For example, a period of high cyclical unemployment might lift structural unemployment. This could occur when people are unemployed for such a long period that their skills and productivity deteriorate, and they become seen as being less employable, reducing the probability that they will be hired in the future.

Other Types of Unemployment –

There are some other types of unemployment that are also important to consider. In particular, the underemployment rate can be thought of as a complementary indicator to the unemployment rate when thinking about conditions in the labour market.

- **Underemployment** occurs when people are employed, but would like and are available to work more hours. There are two categories of underemployed people defined by the ABS. First, part-time workers who would prefer to work additional hours. Second, people who usually work full time, but are currently working part-time hours. Underemployment rates are generally higher

among groups that have a larger proportion of people working part time, such as females, younger workers and older workers.

- **Hidden unemployment** occurs when people are not counted as unemployed in the formal ABS labour market statistics, but would probably work if they had the chance. For example, someone might have looked for work for a long time, given up hope and stopped looking, but still wish to work. (These people are sometimes referred to as ‘discouraged workers’.)

- **Seasonal unemployment** occurs at different points over the year because of seasonal patterns that affect jobs. Some examples include ski instructors, fruit pickers and holiday-related jobs. The ABS publishes seasonally adjusted labour market statistics, which remove seasonal patterns in the data.

Measures to Solve Unemployment Problem in India -

A close reading of the Five-Year Plans reveals that in every Five-Years Plan, employment expansion has been emphasised as an objective of development. Despite all the plan pronouncements, the backlog of unemployment has increased. This is because each Plan was not even able to absorb the new entrants in the labour force.

The following measures have been suggested for solving the unemployment problem in our country:

1. A Change in the pattern of investment

The planning process in the initial stages gave importance to an investment-allocation pattern with a high capital-labour ratio. Therefore, a shift in the emphasis to mass consumer goods industries would generate more employment to absorb the unemployed labour force. Moreover, increase in the supply of such goods may help arrest the rising price-level and increase the economic welfare of the people. This is the wage-goods model of development suggested by Vakil and Brahmanand.

2. Encouragement to small enterprises as against big enterprises

The employment objective and the output objective can be achieved, if greater investment is directed to small enterprises rather than to large enterprises. Now that the Government wants to undertake decentralised development with emphasis on small-scale enterprises, it would be desirable to reorient credit, licensing, raw material allocation and other policies in such a manner that both employment and output are enlarged simultaneously.

3. Problem of Choice of technique

It would be better to switch over to intermediate technologies till the process of industrialisation gets such a powerful momentum that the new entrants to labour force can be absorbed. During the period of rapid growth in the labour force, it would be advisable to adjust the choice of techniques consistent with the employment objective. Intermediate technology would be more suited to Indian conditions.

4. Encouragement of New Growth Centres in Small Towns and Rural Areas

Experience of planning has revealed that the overcrowded metropolitan centres have received a large share of investment. Therefore, the smaller towns should be developed as new growth centres for the future. The establishment of small industrial complexes can increase employment opportunities and provide flexibility to the economy.

5. Subsidies on the Basis of Employment

All schemes of subsidies and incentives to large and small industries have helped output maximisation and greater use of capital resources. The pattern of subsidies should be altered. Creation of more employment should be treated as the basis for the grant of subsidies and incentives. This will shift the entire structure of government support from the large-scale

producer to the small-scale producer as this is more consistent with the objective of employment generation and achieving equality and social justice.

6. Reorientation of Educational Policy

One great defect of our educational system is that it leads one to take up the professional degree only. The high degree of unemployment among the educated signifies the urgent need to reorient our educational system to greater employment opportunities. Education system should be more diversified. It should have more short-term vocational courses that will cater to the local employment needs. Development of quality education is a prerequisite for the development of a nation as it is the remedy for all problems including the problem of unemployment in the country. Hence, a high priority needs to be accorded for education in public expenditure.

7. Underemployment in Rural Areas

N.S.S. data have revealed the existence of a high degree of underemployment in India. The total number of underemployed persons available and willing to take up additional work is estimated to be more than two crores. It is necessary to organise the Rural works Programme. Failure of implementation of Rural Works Programme underlines the relatively low importance given to the rural sector to provide additional employment to millions of landless labourers and small and marginal farmers. Urgent action is needed in this direction so that work opportunities grow in the rural areas. This will raise the level of income and employment in rural areas and reduction in poverty levels.

Meaning of Poverty -

Poverty, the state of one who lacks a usual or socially acceptable amount of money or material possessions. Poverty is said to exist when people lack the means to satisfy their basic needs. In this context, the identification of poor people first requires a determination of what constitutes basic needs. These may be defined as narrowly as “those necessary for survival”

or as broadly as “those reflecting the prevailing standard of living in the community.” The first criterion would cover only those people near the borderline of starvation or death from exposure; the second would extend to people whose nutrition, housing, and clothing, though adequate to preserve life, do not measure up to those of the population as a whole. The problem of definition is further compounded by the noneconomic connotations that the word poverty has acquired. Poverty has been associated, for example, with poor health, low levels of education or skills, an inability or an unwillingness to work, high rates of disruptive or disorderly behaviour, and improvidence. While these attributes have often been found to exist with poverty, their inclusion in a definition of poverty would tend to obscure the relation between them and the inability to provide for one’s basic needs. Whatever definition one uses, authorities and laypersons alike commonly assume that the effects of poverty are harmful to both individuals and society.

Although poverty is a phenomenon as old as human history, its significance has changed over time. Under traditional (i.e., nonindustrialized) modes of economic production, widespread poverty had been accepted as inevitable. The total output of goods and services, even if equally distributed, would still have been insufficient to give the entire population a comfortable standard of living by prevailing standards. With the economic productivity that resulted from industrialization, however, this ceased to be the case—especially in the world’s most industrialized countries, where national outputs were sufficient to raise the entire population to a comfortable level if the necessary redistribution could be arranged without adversely affecting output.

Types of Poverty –

Absolute poverty is when household income is below a certain level. This makes it impossible for the person or family to meet basic needs of life including food, shelter, safe drinking water, education, healthcare, etc.

In this state of poverty, even if the country is growing economically, it has no effect on people living below the poverty line. Absolute poverty compares households based on a set income

level. And this level varies from country to country depending on its overall economic conditions.

Relative poverty is when households receive 50% less than average household incomes. So, they do have some money but still not enough money to afford anything above the basics. This type of poverty is, on the other hand, changeable depending on the economic growth of the country.

- Relative poverty is sometimes described as “relative deprivation” because the people falling under this category are not living in total poverty. They are not, however, enjoying the same standard of life as everyone else in the country. It can be TV, internet, clean clothes, a safe home (a healthy environment, free from abuse or neglect), or even education.
- Relative poverty can also be permanent. This means that certain families have absolutely no chance of enjoying the same standards of living as other people in the same society currently have access to. They are basically “trapped” in a low relative income box.

When the relative approach is used to measure poverty, there is another concept that needs to be explored – persistent poverty. This is when households receive 50 or 60% less income than average incomes every 2 out of 3 years. Since long-term poverty has more impactful consequences on economic and social conditions, persistent poverty is an important concept to bear in mind.

Poverty alleviation measures -

1. **Control of population-** to remove poverty controlling of population is important. It increases per capita income. India started family planning in 1951, however it must be made more aware to the people.
2. **Increase in employment opportunities-** employment opportunities must be made for people in rural areas. Employment in small scale and cottage industries must be encouraged.
3. **Reduce economic inequality-** in this way more job and education opportunities will be provided to the poor and this would help to remove poverty.

4. **Land reforms**- as many land reforms policy are introduced by the government they must be implemented properly as they will help the small farmers to get employment and thereby remove poverty.
5. **Social security measures**- like provident fund, pension, free medical and health services, affordable housing etc should be provided to the rural and urban poor. This will improve the living conditions of people.
6. **Balanced regional development**- government must allocate more funds to the backward and rural regions.

Governmental Initiatives for Poverty Alleviation & Employment Generation in India -

Considering the importance of poverty alleviation, to foster economic growth in a country, the government of India has, since independence, taken various measures in the form of initiatives and schemes to alleviate poverty and to generate employment. Some of these initiatives are given below.

Initiatives for Poverty Alleviation -

1. Integrated Rural Development Programme (IRDP)
2. Jawahar Rozgar Yojana/Jawahar Gram Samridhi Yojana
3. Rural Housing – Indira Awaas Yojana
4. Food for Work Programme
5. National Old Age Pension Scheme (NOAPS)
6. Annapurna Scheme
7. Sampoorna Gramin Rozgar Yojana (SGRY)
8. Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) 2005
9. National Rural Livelihood Mission: Aajeevika (2011)
10. National Urban Livelihood Mission
11. Pradhan Mantri Kaushal Vikas Yojana
12. Pradhan Mantri Jan Dhan Yojana

Government Initiatives for Employment Generation in India

The initiatives undertaken by the government of India since independence for employment generation are:

1. Nehru Rozgar Yojana
2. National Food for Work Programme
3. Training of Rural Youth for Self-employment
4. National Rural Employment Programme
5. Rural Landless Employment Guarantee Programme
6. Jawahar Rozgar Yojana
7. Rural Employment Generation Programme
8. Prime Minister's Rozgar Yojana For Educated Unemployed Youth
9. Swarna Jayanti Shahari Rozgar Yojana
10. Swarnjayanti Gram Swarozgar Yojana
11. Sampoorna Grameen Rozgar Yojana
12. National Rural Employment Guarantee Scheme
13. Employment Assurance Scheme
14. DeenDayal Upadhyaya Grameen Kaushalya Yojana
15. Deendayal Antyodaya Yojana - National Urban Livelihoods Mission (DAY-NULM)
16. Pradhan Mantri Kaushal Vikas Yojana (PMKVY)

Social Security measures for India's Population -

India's social security system is composed of a number of schemes and programs spread throughout a variety of laws and regulations. Keep in mind, however, that the government-controlled social security system in India applies to only a small portion of the population.

Furthermore, the social security system in India includes not just an insurance payment of premiums into government funds (like in China), but also lump sum employer obligations.

Generally, India's social security schemes cover the following types of social insurances:

- Pension;
- Health Insurance and Medical Benefit;
- Disability Benefit;
- Maternity Benefit; and
- Gratuity.

While a great deal of the Indian population is in the unorganized sector and may not have an opportunity to participate in each of these schemes, Indian citizens in the organized sector (which include those employed by foreign investors) and their employers are entitled to coverage under the above schemes.

The applicability of mandatory contributions to social insurances is varied. Some of the social insurances require employer contributions from all companies, some from companies with a minimum of ten or more employees, and some from companies with twenty or more employees.

In this article, we will discuss each of these social insurances, along with their coverage, contribution rates, and the laws and regulations behind them.

The Code on Social Security, 2020 -

Foreign companies should note that when The Code of Social Security, 2020 – one of the **four new labor codes** introduced by the Ministry of Labor and Employment – comes into force, it will subsume the following enactments:

- The Employees' Compensation Act, 1923;
- The Employees' State Insurance Act, 1948;
- The Employees' Provident Funds and Miscellaneous Provisions Act, 1952;
- The Employment Exchanges (Compulsory Notification of Vacancies) Act, 1959;
- The Maternity Benefit Act, 1961;
- The Payment of Gratuity Act, 1972;

- The Cine- Workers Welfare Fund Act, 1981;
- The Building and Other Construction Workers Welfare Cess Act, 1996; and
- The Unorganised Workers' Social Security Act, 2008

Rules for the new labor codes on industrial relations, social security, and occupational safety health & working conditions (OSH) are likely to be finalized by the end of January, according to Labor Secretary Apurva Chandra. If that is the case, it may result in implementation of the labor codes by April 1, 2021 – which was the deadline, put by the labor ministry. However, this timeline is subject to change, depending on interventions made by key stakeholders and lobby groups and other exigencies, such as the impact of the ongoing pandemic.

The Labor Secretary was also quoted in the media saying that the draft model standing orders for the manufacturing, mining, and service sectors will be finalized by February. These draft orders set the standards for service conditions and employees' conduct in the respective sectors and were notified on December 31, 2020 to seek feedback (within a period of 30 days from the date of notification).

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