

## Understanding the Employment challenges in India

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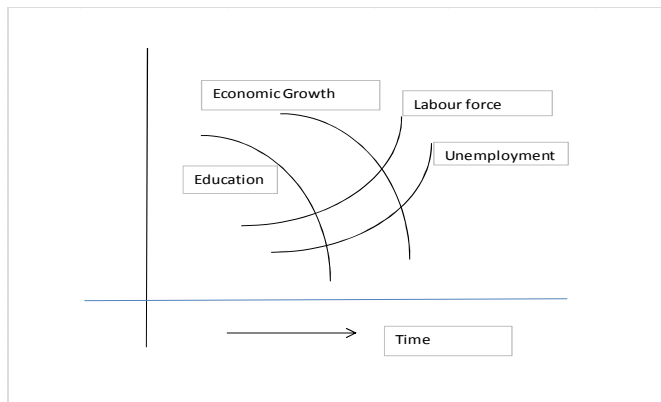
### Abstract

*This study examines unemployment, its reasons, and its impact and government measures taken to curb unemployment in the pre-liberalization and post-liberalization period in India. Using Behaviour over Time Graph (BOT) variables such as economic growth, education and labour force, the study find that unemployment is decreasing over the period. The study also finds that employment in India is challenged by major factors like economic crisis, gap between curriculum and industry demand and jobless growth.*

**Keywords:** Unemployment, India, jobless growth, unemployment rate, distress employment.

### Introduction

What causes unemployment is often a subject of considerable debate in the academic and policy research. It is well established fact that every country wants to achieve full employment for its growing population. However, unemployment rates still remain at an alarming rate in many of the countries. Many studies have been conducted till date to understand the major forces behind the unemployment. While relatively little research has been done using BOT Variables in emerging economies like India.



**Figure-1**  
**BOT graph for Unemployment**

The above BOT graph tells us that the increase of unemployment and labour forces over time with decreases in the economic growth and literacy rate.

It is estimated that the combined GDP of the BRIC countries is likely to be higher than that of developed countries. Studies have projected that among the BRIC countries, India has the potential to grow faster over the next 30-50 years. Among many other problems, unemployment is one of the major concerns India faces. It is reported that around 23.4% of male and 16.4%

of female aged between 15-29 years with graduation are unemployed (NSSO). The unemployment rate for the year 2011-2012 in the rural India is 5.5% and 6.2% for male and female respectively. The unemployment rate in the urban area for the year 2011-2012 is estimated as 4.9% and 8% for male and female respectively.(NSSO)

Unemployment is the major macroeconomic variable of unemployment, as it is directly related to the GDP of the country. Unemployment leads to inflation and retarded growth<sup>1</sup>. The major factors that accelerate unemployment are economic crisis. The problem worsens during the crisis period. The major world crisis like euro crisis and the current financial crisis made the situation more worsen. Moreover the impact of unemployment affects different sectors such as industry, society, government. So it is of great important for policy makers to understand the unemployment challenges. These studies contribute to the existing literature by analysing Unemployment challenges in India by using BOT variables.

The rest of the paper is arranged as follows. Section 2 describe data and methodology, section 3 describethe critical analysis and interpretations.

### Methodology

This section, describe the variables and sources of the variables used in this study. Data obtained from NSSO. Since the main aim of this paper is to investigate unemployment challenges in India by using BOT (See Figure 1) variables, we use economic growth, education and labour force as major variables for understanding unemployment. Unemployment is measured as percentage of unemployed persons to the total labour force. GDP is used to economic growth. To calculate labour force, the total number of employed and unemployed is added. The study also use total number of employed men and women from both urban and rural to measure Cumulative Average Growth Rate

(CAGR).Data also obtained from different GOI websites regarding the status of MNREGA and SGSY, SJSRY and PMEGP, also the Bloomberg and RBI data sources used for collecting some data.

**Results and Discussion**

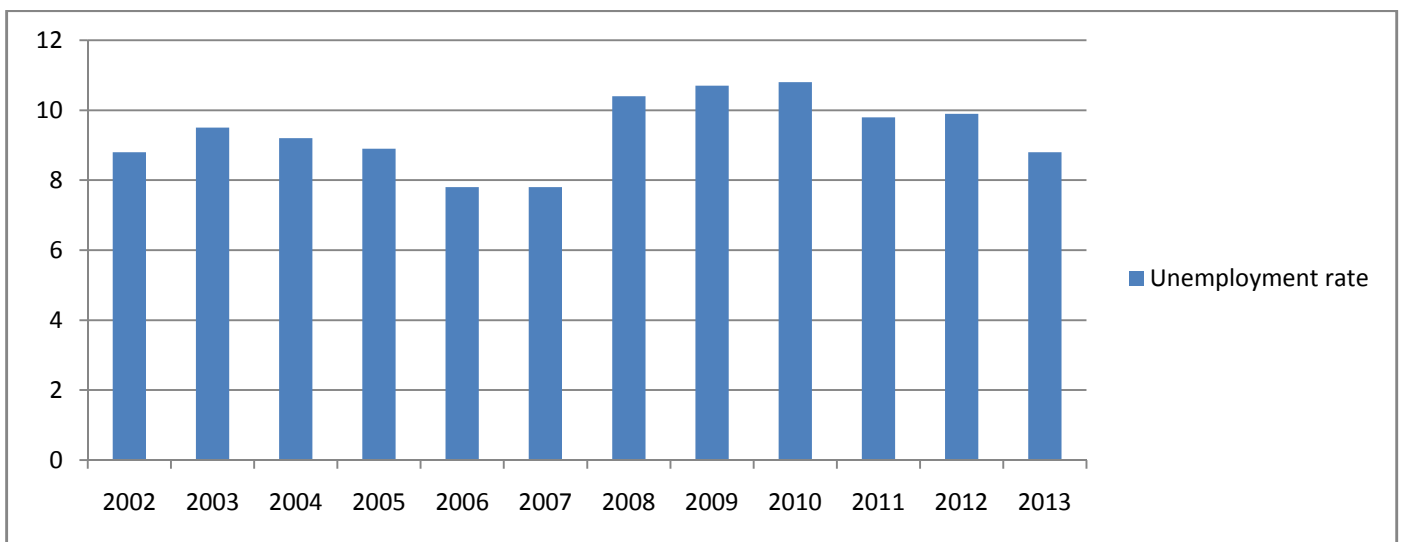
**Reason for Unemployment:** Usually unemployment is that situation, when a person actively searching job but unable to find it. Usually unemployment is measure by the term unemployment rate. Unemployment rate is usually given by the following formula as shown below<sup>1,2</sup>.

Unemployment rate= ((Number of unemployed persons/labor force)\*100)

**Labour Force:** India is passing through the 2<sup>nd</sup> stage of demographic transition; with a sharply declining death rate and high level of birth rate. The population explosion has created an army of labour force of around 500 million<sup>3</sup>, which are difficult to absorb given the land and other resources of the country. The labour force is given by the following formula:

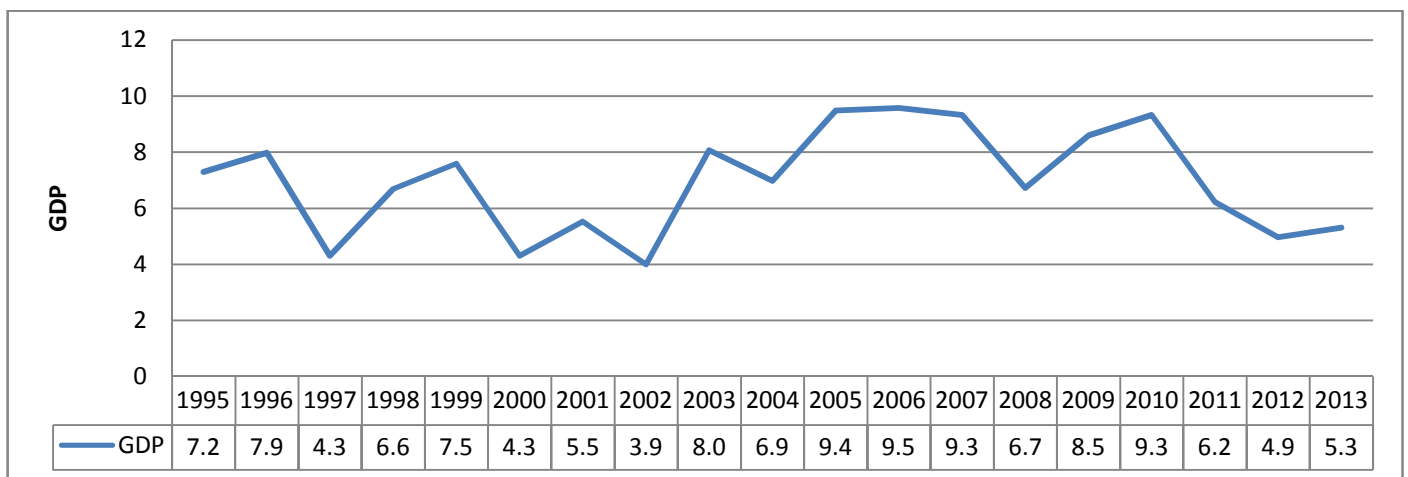
Labour force= Number of employed + Number of unemployed.

**Economic growth:** By and large the Indian economy growth remained sluggish during the last five decades at an annual rate of 4 to 5 %<sup>4</sup>. The lack of buoyancy in the economy has failed to absorb the ever increasing labour force.



Source: Bloomberg

**Figure-2**  
**Unemployment rate YOY in India**



Source: RBI, Bloomberg

**Figure-3**  
**India's GDP growth**

**Gap between curriculum and industry demand:** The education system of India is still colonial in nature tailored to produce clerks in tune with the requirements of the British Government in India. There is hardly any tune between the needs of the industry and the class-room teaching, resulting in unemployed graduate. While in the short run job search and wage rigidity is primary reasons.

**Jobless Growth:** Jobless growth an important reasons for unemployment in India. It is given by  $(\text{Number of unemployed persons/labor force}) \times 100$ . So we mainly concerned about the numerator part, as the number of unemployed person increases the unemployment rate increases. This group consisting of mainly those people who have suitable degrees but unable to find any jobs due to lack of number of jobs in the market. Jobless growth mainly happens when labour productivity increases faster than economic growth. During the years 1981-1982 to 1981-92, employment rate grows at 0.40 %<sup>5</sup> and from 1992-93 to 2004-05, the growth of employment reached around 0.63 %<sup>5</sup>. Overall employment during the entire period is around 0.78 %<sup>5</sup>. On the other hand the work force is also growing at the rate of 1 %<sup>[8]</sup> during the mid-ninety's and becomes around 3 %<sup>5</sup> during the period 1999-00 to 2004-05. The growth rate of industries during that period was around more than 7 %<sup>5</sup>. So the number of labour force increases to around four hundred fifty seven million with increase of unemployed people around eleven million. The percentage of jobless growth has increased from year 2002-2005 and it reached around 10 %<sup>5</sup>.

As result of which we are having two growing curves one the growing employment curve and the other jobless growth. Jobless growth curve grows more than that of the employment curve as a result of which we have overall effect of jobless growth. Probable outcomes of jobless growths are labour market rigidity, cheap capital market and nature of demand changes.

The immediate effect of jobless growth is rigidity in the labour market. Decrease in the labour demands leads to the increase in the number of low paid jobs<sup>6</sup>. Minimum mandate services or benefits will be provided by the companies. Number of job

cutting will increase. This leads to the weak strength or union between the employees. As result of this the number of government jobs will increase.

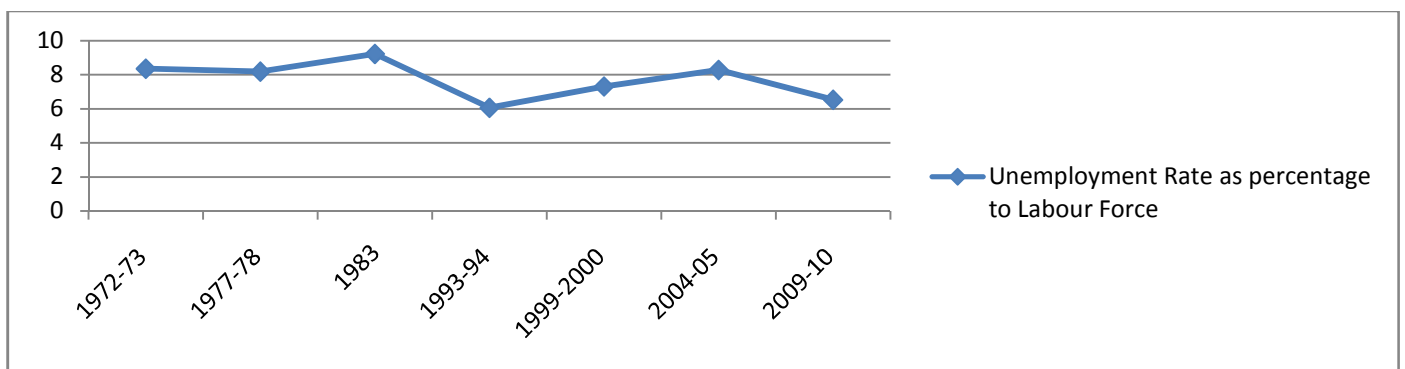
Due to jobless growth, the capital becomes cheaper. Many steps like reducing interests, cash subsidy will be given to maximise the utilisation of capital. Due to cheap labour the nature of demand will change. Export will increase, resulting in more exports of the goods. All of these lead to the unorganised workforce.

**Impact of Unemployment:** In addition to the economic problems associated with unemployment there are psychological effects. An unemployed person is likely to be under stress and often lacks self-esteem leading to physical deterioration. The increasing rates of suicide, divorce, child abuse and mentally affected people are more during periods of high unemployment. The impact of unemployment on various entities like urban-rural areas, genders, states, sectors are discussed below.

During 1950's the programme of economic development in India mainly based on two strands of the received theory and economic thinking on employment, but neither of these approaches favour Indian economy<sup>7</sup>. The unemployment rate before liberation was much more but after liberalisations, labour increases due to many factor as a result the unemployment rate also decreases. There was a growth in capitalists segment is there but still we have experience an overall unemployment in the economy, further growth can lead to exclusion<sup>8</sup>. The trend in the unemployment year wise shown below in the graph.

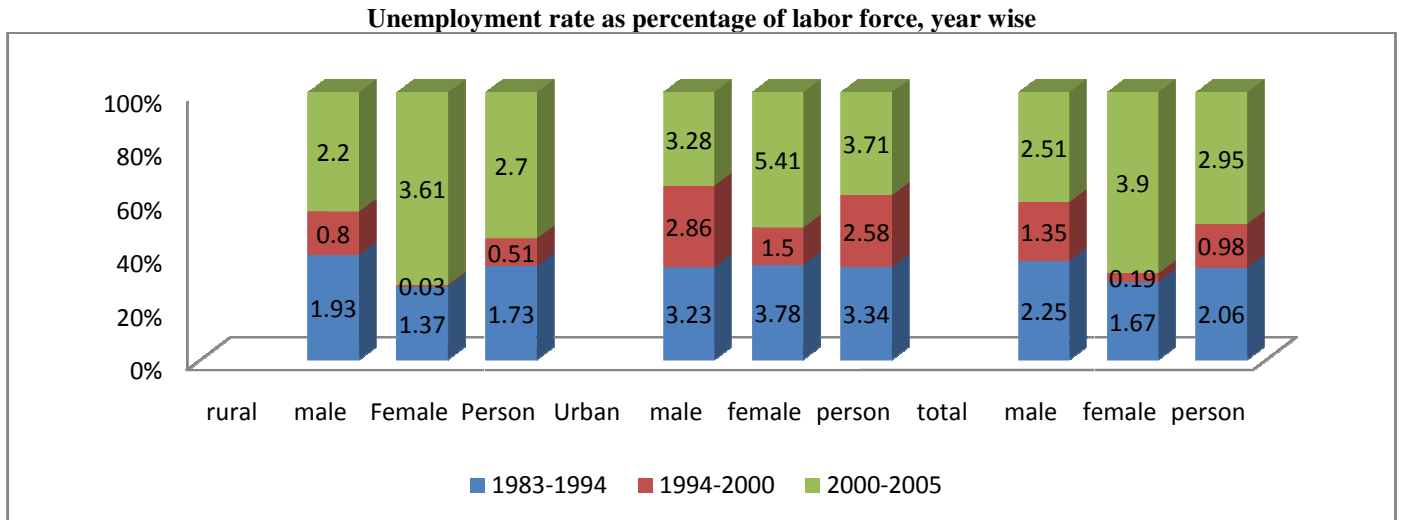
**Trends in unemployment:** In the year 1983 the unemployment rate was high, but it was come down in the year after 1991. As our economy goes global and so global economy has an effect in the employment also.

**Trends in the rural and urban:** From the below graph it is clear that the employment growth is not uniform in rural and urban India.



Source:- NSSO round data

Figure-4



Source:- NSSO various round data

**Figure-5**  
**CAGR % of Employment UPSS**

Also the employment growth for rural females is markedly lower than that in urban females. One interesting fact to look into the above graph is employment growth for females is higher in the 2000-2005 time periods than that for males. This is mainly because of the girl child education schemes and empowering of women by government intervention schemes. During the year 2000-2005 interesting trends observed in both regions. In rural female count increases in the labor market; there was an increment in the labor force participation rate (LFPR), leads to the increase in the work participation rates (WPR). There was an increase in participation of the older population in the period of 2000-2005, which clearly highlights the unavailability of productive employment and lack of pension. Similarly, in Urban the number of part time jobs in informal sector increases. It is clear that both the rural and urban trends is influenced by policies issues. In case of the rural areas low and stagnant wage levels and lack of productive employment and pension<sup>9</sup>. In rural India low wages is not only the problem but also the quality of education<sup>9</sup>.

Similarly, in case of urban low employment growth rates and poor quality of work for increased female labor force. Recently more and more population is migrating to the urban India. There is an increase in the informal employment in the urban India. Similarly casual work force increases in the rural India.

**Sector wise employment:** Basically, sector classification usually done as the agricultural and the non-agricultural sector. Before liberalisation India's agricultural contribution was more<sup>10</sup> but now non-agricultural sector contribution is more. The table given below shows the GDP growth of India in agricultural and non-agricultural sector<sup>11</sup>.

It is clear from the above table the year 1999-2000 to 2004-2005 GDP growth is very low and it is a case of Distress Employment<sup>12</sup>.

**Table-1**  
**Sector wise GDP (Source: NSSO)**

Sector	1993-94 to 1999-2000	1999-2000 to 2004-05	2004-05 to 2007-2008
Agriculture	3.99	1.56	4.55
Non Agriculture	9.36	7.3	10.56
Total	7.86	5.98	9.47

India is service oriented country, which means the service sector contributes the major portions in the GDP. India has different states with significance difference in the income and service sector contributions.

The table shown above shows the contribution of different Indian states in the service sector in terms of Income and employment. We mainly divide the table into very high, high, medium, low and very low as row and column. Where very high is above 65%, high 64.9-60%, medium 59.9 to 50%, low 49.9 to 35% and very low 34.9%. Assumption

From the above table it is said that in Delhi and Chandigarh the percentage of income and employment is maximum in service sector

**Major Government Policy taken towards Unemployment**  
**Macro- Economic policies:** Fiscal, Monetary and trade policies focus on creating employment opportunities as well.

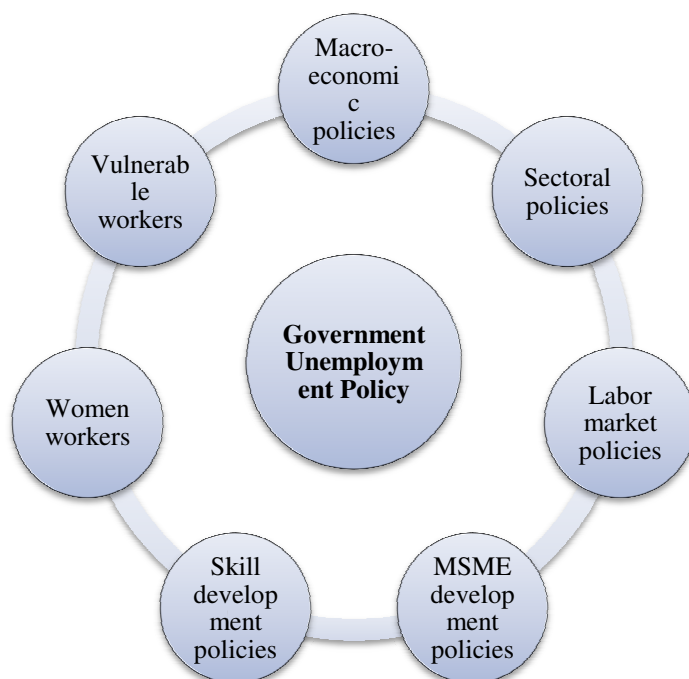
**Sectorial Policies:** Sectors with high employment potential have been identified and sector specific policies evolved for faster growth, example: Retail trade, Tourism, Others (IT and

ITES). Promoting SEZs, AEZs, EPZs to promote special sectors.

**Table-2**

**Indian states contribution to service sector and share of income (Data source:- CSO<sup>13</sup> and NSSO, 2011)**

Income\ Employment	Very high	High	Medium	Low	Very low
Very high	Delhi, Chandigarh				
High		Kerala, Maharashtra, West Bengal	Assam, Tamil Nadu	Bihar	
Moderate		Goa	Haryana, Karnataka	Andhra Pradesh	Orissa, Madhya Pradesh
Low			Jammu and Kashmir	Rajasthan, Uttar Pradesh, Uttarakhand	Chhattisgarh
Extreme low		Punjab	Gujarat	Himachal Pradesh, Jharkhand	



**Figure-6**

**Various major steps taken by the government of India**

**Labor Market Policies:** Regulating employment to ensure safety, fairness and equity at work; skill development to increase the employability of the workforce; gender neutrality at workplace with equal pay for men and women; dissemination of information regarding labor market to reduce costs to both workers and employers.

**Micro and Small Enterprise Development Policies:** To provide easy availability of credit, funds to be setup to support such enterprises development to provide infrastructure, banking facilities, skill up gradation centers and protection of IP rights in geographical areas.

**Skill Development Policies:** The overall unskilled workers are increased specially in the nineteenth century<sup>14</sup>, hence training center slinking skill development with education systems by providing vocational training; certification institutes. Government of India introduces schemes like National skill development policies, expansion of skill development institutions and number of seats, promoting skill development schemes, development of the J and K, Northeast states.

**Women and Vulnerable Workers:** Gender sensitive macro policies; ensuring migrant workers have access to basic

amenities; abolishing child labor practices, reduce incidence of bonded labor. To give a backup especially to the unorganized workers, government of India introduces many welfare and social security's schemes. They are as follows: Rashtriya Swasthya BimaYojana; Unorganized workers social security Act, 2008; Employee's State Insurance corporations; Employee's provident funds organization; eliminating child labor etc<sup>15, 16, 17</sup>.

**Present Government Policies schemes to counter unemployment and status:** Government promotes various employment aided schemes to counter act the unemployment issues, various major employment schemes includes as follows:

**MNREGA<sup>18</sup>:** It is one of the prime schemes run by central government. The statistics of impact of MNREGA year wise is shown below

**Table-3**  
 The impact of MNREGA year wise

Year	Employed households	Avg. number of working days per households	Gross Expense
2007	21000000	43	882335000
2008	33900000	42	1585688000
2009	45100000	48	2725010000
2010	52500000	54	3790523000
2011	54900000	47	3937727000
2012	49900000	43	3803469000
2013	42500000	36	2807351000

Source: Standing Committee on Rural Development

**Table-4**  
 Year wise MNREGA completion percentage

Year	Year wise completion
2007	46.34%
2008	45.99%
2009	43.76%
2010	48.94%
2011	50.86%
2012	20.25%
2013	15.02%
Total	33.22%

Source: Standing Committee on Rural Development

The government of India has introduced this scheme to counter heavy unemployment and was fairly successful, from the above two table's data. The positive points of the MNREGA are that it provides employment to rural a household that includes SCs, STs, and Women. It promotes the sustainable development. It has several drawbacks like misuse of job cards, wages payment delays, and as from the above table the completion rate is not fair. To counter act these problems, MNREGA forms a committee to overcome this problems. On their suggestion committee come up of certain solutions like job cards regulations, to encourage more participation from women and disabled persons, proper fund utilisations, training and monitoring etc.

**SGSY<sup>19</sup>:** This scheme basically targets the minorities and low poverty groups and started in the year 1999.

**Table-5**  
 Achievement of SGSY during 2011

Total Swarozgaris Assisted (lakhs)			21.10	
SC	ST	Minorities	Women	Handicapped
7.35	3.62	2.44	14.24	0.41

Source: Ministry of rural development

SJSRY has 5 components as shown below: i. The Urban Self-Employment Programme helps to set up the micro enterprises. ii. The Urban Women Self-help Programme mainly to help the women SHGs. iii. Skill Training for Employment Promotion amongst Urban Poor (STEP-UP) mainly to trained and skill them to expertise. iv. The Urban Wage Employment Programme (UWEP) mainly for the development of public assets. v. The Urban Community Development Network (UCDN) to implement and construct committees to promote awareness and development.

Progress report of the scheme is shown below in the table.

**Table-6**  
 Targets and achievement of SJSRY

Component wise beneficiaries	2011	
	Aim	Actual
Beneficiary numbers under (USEP)	25,000	82,648
Beneficiary numbers under (UWSP) for MSME	25,000	74,355
Beneficiary numbers under (UWSP) others	50,000	184000
Beneficiary numbers under (STEP-UP)	200000	254000

Source:-MOHUPA<sup>20</sup>

From the above table it is clear that the achievement through this scheme is much better, it achieved more than that of the targeted.

**PMEGP<sup>21</sup>**: This is a relatively new scheme launched by GOI. The table below shows its progress and achievements

**Table-7**

**Achievements of PMEGP**

Year	Subsidy to MSME	Project Financed	Margin money subsidy utilized	Employment opportunities created	Margin Money/Project	Employment/Project
2009	740	19,166	356.23	2,04,747	1.86	10.68
2010	504.21	40,918	762.44	4,24,982	1.86	10.39
2011	877.2	49,064	891.18	4,80,613	1.82	9.8
2012	1010.24	55,135	1057.84	4,95,523	1.92	8.99
2013	1228.44	57,078	1080.66	4,28,221	1.89	7.5
2014	676.5	5,955	138.01	42,001	2.31	7.05
Total	5036.59	2,27,316	4286.36	20,76,087	1.89	9.13

Source: Ministry of MSME

From this scheme many employment opportunities has been created and many get benefited from it. As a result of all of this policies the rather than creating the surplus of skilled labours it creates the bumps in skilled labour and unskilled labours groups<sup>22</sup>.

The BOT graph variable as explain in the beginning is active for India's Unemployment rate. The result shows that there is an imbalance between rural and urban employment, sector wise employment. Due to growth in population with reduce economic growth leads to jobless growth. To counter act government has launched many projects but most of them are not fully implemented or partially successful.

**Conclusion**

Understanding the employment challenges persisting of own country is important. Main problem challenged the employment in India are present economic crisis, gap between the curriculum and industry requirement and increasing labour force. In spite of the increase in employment, due to the rising labour force and jobless growth results into the net unemployment. The unemployment has many side effects major it retards the country's growth and not good for the economy. To fight with the unemployment government of India has taken many steps and introduced many schemes. Many of those schemes are really beneficial but it creates more of mixed of unskilled labour force, rather than creating surplus skilled labour force. So, much more to do, government should focus more on how to bridge the gap between the curriculum and industry requirement. On possible solution to this question is to organise the meeting between industry and educational institute, so that curriculum designed according to the need of the industry addition to the basics. The major solutions can be union of Indian states. As we have seen in European Union, they have form union among them, today they are the most successful and powerful union.

The same kind of model can be implemented in India not only to address unemployment but for sustainable growth. India has labour force, resource, and land etc., major factors of productions. If India can utilise all of this effectively, then the under developed states like Jharkhand, Orissa can be benefited, as they have mineral resources. This can lead to overall growth of the country and sustainable employment growth.

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