

UNEMPLOYMENT AND POVERTY PARADOX IN INDIA

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1. UNEMPLOYMENT AND POVERTY: CONCEPTUAL DISCUSSION

1.1. UNEMPLOYMENT:

Unemployment is a complex phenomenon. In ordinary sense, it denotes a situation when a person is not gainfully employed in a productive activity and thereby does not work. According to Prof. Pigou, “A man is unemployed only when he is both without a job or not employed and also desires to be employed.” The unemployment rate is a measure of the prevalence of unemployment and it is calculated as a percentage by dividing the number of unemployed individuals by all individuals currently in the labor force.³ During the period of recession, an economy usually experiences a very high unemployment rate. According to the report of International Labor Organization, more than 200 million people globally or 6% of the world's workforce were without a job in 2012.

There has been a good amount of theoretical debate in regard of the causes, consequences and solutions for unemployment. Classical economics, new classical economics, and the Austrian School of economics argue that the market mechanisms are reliable means of resolving unemployment. These theories argue against interventions imposed on the labor market from the outside, such as unionization, bureaucratic work rules, minimum wage laws, taxes, and other regulations that they claim discourage the hiring of workers.⁴

Whereas the Keynesian economics emphasizes the cyclical nature of unemployment and recommends government interventions in the economy. They believe that government intervention shall help in reducing unemployment during recessions. This theory focuses on

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³ T.K. Jain & V.K. Ohri, Indian Economic Development, at 154 (8th ed. 2010).

⁴ Unemployment, Wikipedia (Oct. 18, 2016, 11:20 p.m.), <https://en.wikipedia.org/wiki/Unemployment>

recurrent shocks that suddenly reduces aggregate demand for goods and services and thus reduce demand for workers.⁵

1.1.2. CONCEPTS RELATED TO THE MEASUREMENT OF EMPLOYED AND UNEMPLOYED:

- A. Labor Supply: It refers to the supply of labor at different levels of wages. It can increase or decrease even if the number of workers remains constant. This is because the supply of labors is measured in terms of man-days, and one man-day is referred to as 8 hours of work.
- B. Labor force: It refers to the number of persons actually working or willing to work. It has nothing to do with wage rate. It is also measured in terms of man days. The size of labor force may increase or decrease only when the number of persons actually working or willing to work increases or decreases. In other words it can be said that labor force is measurement of potential labor force.
- C. Work Force: It refers to the number of persons actually working and does not consider those who are willing to work. It is the measurement of actual labor force. Further, the difference between the labor force and work force gives us the number of persons unemployed at a given time.
- D. Participation Rate: It refers to the percentage of population actually participating in the production activity. It is measured as the ratio between the work force and total population of the country.⁶

1.2. POVERTY:

The word poverty comes from old French *poverté* which means poor.⁷ It is a multifaceted concept, which includes social, economic as well as political elements. Poverty can be defined in either absolute or relative manner. Absolute poverty refers to the lack of means necessary to

⁵ *Id.*

⁶ Surbhi Arora, *Economics for Law Students*, at 238 (2nd ed. 2014).

⁷ Walter Skeat, *An Etymological Dictionary of the English Language* (1st ed. 2005).

fulfill the basic needs like food, clothing and shelter. Whereas, relative poverty takes into consideration individual social and economic status compared to the rest of society.

According to the World Bank, between 1990 and 2015, the percentage of the world's population living in extreme poverty has come down from 37.1% to 9.6%, falling below 10% for the first time.⁸ Whereas UNICEF estimates half the world's children live in poverty.⁹

1.2.1. DEFINITION OF POVERTY GIVEN BY MAJOR INTERNATIONAL ORGANIZATION:

- United Nations: *“Fundamentally, poverty is a denial of choices and opportunities, a violation of human dignity. It means lack of basic capacity to participate effectively in society. It means not having enough to feed and clothe a family, not having a school or clinic to go to, not having the land on which to grow one’s food or a job to earn one’s living, not having access to credit. It means insecurity, powerlessness and exclusion of individuals, households and communities. It means susceptibility to violence, and it often implies living on marginal or fragile environments, without access to clean water or sanitation”*¹⁰
- World Bank: *“Poverty is pronounced deprivation in well-being, and comprises many dimensions. It includes low incomes and the inability to acquire the basic goods and services necessary for survival with dignity. Poverty also encompasses low levels of health and education, poor access to clean water and sanitation, inadequate physical security, lack of voice, and insufficient capacity and opportunity to better one’s life.”*¹¹

2. NATURE OF UNEMPLOYMENT AND POVERTY IN INDIA

⁸ World Bank Sees Progress Against Extreme Poverty, But Flags Vulnerabilities, World Bank (Oct. 18, 2016, 11:30 p.m.), <http://www.worldbank.org/en/news/press-release/2012/02/29/world-bank-sees-progress-against-extreme-poverty-but-flags-vulnerabilities>

⁹ Ernest C. Madu. Investment and Development Will Secure the Rights of the Child, UNICEF (Oct. 18, 2016, 11:20 p.m.), http://www.unicef.org/rightsite/364_617.htm

¹⁰ Available at www.unicef.org/socialpolicy/files/Briston_U_measuring_child_poverty_for_policy_purposes.ppt&sg=AFQjCNHPlx6X0pPIbdqvb1kM8WcbsYDd1w

¹¹ Available at <http://cdn.intechopen.com/pdfs-wm/35838.pdf>

2.1. UNEMPLOYMENT:

The nature of unemployment in an under developed country differs from the nature of unemployment of developed countries. Following are the types of unemployment prevalent in developing countries like India:

- A. Frictional Unemployment: This type of unemployment occurs due to imperfections in the mobility of labor across different occupations. E.g. one wish to move from one job to the other, but in the process of change may remain or prefer to remain unemployed for some time. Frictional unemployment exists when there is lack of adjustment between demand and supply of labor force. However, this is for temporary period only. This type of unemployment is usually observed in the developed countries. But, now it even occurs in India as India is a growing economy.
- B. Structural Unemployment: This type of unemployment occurs due to the structural change in economy such as: Change in technology and Change in the pattern of demand. When the technology changes the old technology is no longer needed, so they are rendered unemployed. Similarly a change in the demand pattern may result in the closure of certain industries and the workers will get unemployed. Developing country like India suffers from serious structural change in the process of growth and thus a high degree of structural unemployment exists in both urban and rural areas.¹²
- C. Open Unemployment: Open employment refers to the situation where a worker is willing to work and also has the necessary ability to do work but does not get work. This type of unemployment is usually found among agricultural laborers, educated persons and those who come from villages to urban areas in search of jobs but fail to get any work.
- D. Disguised Unemployment: Disguised unemployment refers to a situation where a person is apparently employed, but in fact is unemployed. Their contribution to output is nil and if they stop working then output won't be affected. Disguised unemployment occurs because of surplus labor force, non- availability of alternative employment opportunities in the urban sector and agriculture being family occupation of the workers.

¹² Surbhi Arora, Economics for Law Students, at 239 (2nd ed. 2014).

- E. Under Unemployment: It refers to the situation when the employed people are contributing to production and income less than what they are really capable of.¹³
- F. Seasonal Unemployment: Seasonal unemployment refers to a situation when people get work during some days or months of the year, but not regularly throughout the year. This is observed mainly in the agricultural sector. In agriculture, work is seasonal even though agricultural activities are performed throughout the year. During the peak agricultural seasons (when the crop is ready for harvesting) more people are required for work. Similarly in the sowing, weeding and transplantation period more labor is required. Employment therefore increases at this time. In fact we will find that there is hardly any unemployment in rural areas during these peak agricultural seasons. However, once these seasons are over the agricultural workers, especially those who do not own land or whose land is not sufficient to meet their basic requirement (these are landless laborers and marginal farmers respectively), remain unemployed.¹⁴
- G. Technological and Educated Unemployment: Technological unemployment refers to the unemployment that arises because of the use of labor saving techniques. Whereas educated unemployment refers to the unemployment among the educated people.¹⁵

2.2 POVERTY:

There are several definitions of poverty which is appropriate for India. Inside India, both income-based poverty definition and consumption-based poverty statistics are in use. Outside India, the World Bank and institutions of the United Nations use a broader definition to compare poverty among nations, including India, based on purchasing power parity (PPP), as well as nominal relative basis. Each state in India has its own poverty threshold to determine how many people are below the poverty line and to reflect the regional economic condition. These differences in

¹³ *Id* at 240.

¹⁴ *Id.*

¹⁵ *Id* at 241.

definition yield a complex and conflicting picture about poverty in India, both internally and when compared to other developing countries of the world.¹⁶

As with many countries, poverty was historically defined and estimated in India using a sustenance food standard. This methodology has been revised. India's current official poverty rates are based on its Planning Commission's data derived from Tendulkar methodology. It defines poverty in terms of consumption or spending per individual over a certain period for a basket of essential goods. Further, this methodology sets different poverty lines for rural and urban areas. Since 2007, India set its official threshold at ₹ 26 a day (\$0.43) in rural areas and about ₹ 32 per day (\$0.53) in urban areas which was later changed to 32 Rs. in rural India and 47 Rs. in urban India [Rangarajan Committee]. While these numbers are lower than the World Bank's \$1.9 per day income-based definition, the definition is similar to China's US\$0.65 per day official poverty line in 2008.¹⁷

The World Bank's international poverty line definition is based on purchasing power parity basis, at \$1.25 per day which has now been raised to 1.9 \$ a day. This definition is inspired by the reality that the price of same goods, and services such as a haircut, are quite different in local currencies around the world. A realistic definition and comparison of poverty must consider these differences in costs of living, or must be on purchasing power parity (PPP) basis. On this basis, currency fluctuations and nominal numbers become less important, the definition is based on the local costs of a basket of essential goods and services that people can purchase. By World Bank's 2014 PPP definition, India's poverty rate is significantly lower than previously believed.¹⁸

3. CAUSES AND CONSEQUENCES OF UNEMPLOYMENT IN INDIA

3.1 CAUSES OF UNEMPLOYMENT:

¹⁶ Erenstein, Livelihood Assets as a Multidimensional Inverse Proxy for Poverty: A District-level Analysis of the Indian Indo-Gangetic Plains, *Journal of Human Development and Capabilities*, 12(2), pp. 283-302 (1st ed. 2011)

¹⁷ Panagariya & Mukim, A comprehensive analysis of poverty in India. *Asian Development Review*, 31(1), pp. 1-52(2014).

¹⁸ Poverty in India, Wikipedia Available at https://en.wikipedia.org/wiki/Poverty_in_India (Oct. 16, 2016, 11:46 a.m.),

The Indian economy suffers from the problem of unemployment over the years. The main causes of ever-increasing unemployment in India are as follows:

- **Slow Economic Growth:** In India, the growth rate of the economy is very slow and it fails to provide enough employment opportunities of the rising population. The availability of labor is much more than the availability of employment opportunities.¹⁹
- **Rapid Population Growth:** The expansion of population has directly added to the unemployment problem by adding to the labor force. This has reduced the savings and investment resulting in a slow growth of job opportunities.²⁰
- **Seasonal Occupation:** Agriculture is the primary occupation in India and provides employment to a major portion of the population; but its seasonal character does not provide work to the farmer all the year round. The number of disguised unemployment is nearly 15% of the total working population.²¹
- **Decline of Cottage Industries:** In rural India, cottage industries are the only means of employment particularly of the landless people. They depend directly on various cottage industries for their livelihood. But, now-a-days, these are adversely affected by the industrialization process. Actually, it is found that they cannot compete with modern factories in quality as well as production. As a result this village industry suffers serious loss and gradually closes down. Owing to this, the people who work in there remain unemployed.²²
- **Defective education system:** The modern day education is very defective and is confined within the walls of class room only. The present educational system is not job oriented, it is degree oriented. It is defective on the ground that it is more general than vocational and technical. Thus, the people who get general education are unable to get any work. It leads to unemployment as well as underemployment.
- **Limited Land:** Land is the gift of nature. It is always constant and cannot expand like population growth. Since, Indian population is increasing rapidly; therefore, the land is not sufficient for the growing population. As a result, there is heavy pressure on the land. In rural areas, most of the people depend directly on land for their livelihood. Land is

¹⁹ Surbhi Arora, Economics for Law Students, at 243 (2nd ed. 2014).

²⁰ *Id.*

²¹ *Id.*

²² *Id.*

very limited in comparison to population. It creates a situation of unemployment for a large number of persons who depend on agriculture in rural areas.

- **Inadequate Employment Planning:** The employment planning of the government is not adequate in comparison to the population growth. As a consequence, a great difference is visible between the job opportunities and population growth. On the other hand it is a very difficult task on the part of Government to provide adequate job facilities to all the people. Besides this, the government has not taken any adequate step in this direction. The faulty employment planning of the Government expedites this problem to a great extent. In five years plan low priority has been given to employment. As a result the problem of unemployment is increasing day by day.^{23 24}

3.2 CONSEQUENCES OF UNEMPLOYMENT IN INDIA:

Unemployment is considered to be the most threatening problem which India is facing today. It is not only viewed as an economic issue because it also has social, moral and political consequences.

A. Economic Consequences: When the man power resources of the country are not utilized due to unemployment, it is a permanent loss for the society. The total quantity of goods and services which could have been produced during the period of unemployment is lost forever by the society.

When manpower is not utilized properly there is a loss of human capital. The resources invested in the education, training and skill formation of man power gets wasted when the people don't get work.²⁵

B. Political Consequences: Continued unemployment and economic insecurity leads to discontentment, frustration and resentment against the existing socio-economic system. The situation of lawlessness might prevail in such conditions. The unemployed people become easy

²³ Causes of Unemployment in India, Education Research and Development Organization, Available at <https://www.erdoclasses.com/causes-of-unemployment-in-India.php> (last accessed on Oct. 16, 2016, 11:20 p.m.)

²⁴ Illiteracy, Poverty, Unemployment and Population Growth, NPTEL, available at <http://nptel.ac.in/courses/109103022/pdf/mod2/lec11.pdf> (last accessed on Oct. 16, 2016, 11:30 p.m.),

²⁵ Surbhi Arora, Economics for Law Students, at 241 (2nd ed. 2014).

targets of radicalism. The Naxalite Movement is a result of large scale unemployment and its economic miseries.²⁶

C. Moral Consequences: Unemployment even leads to moral degeneration. A person with an empty stomach is likely to develop various types of moral vices. Unemployment breeds corruption, dishonestly, gambling etc...²⁷

D. Social Consequences: Unemployment lowers the quality of life in the economy. Further, the employees are able to exploit the workers by giving them lower wages and make them work for longer hours.

Unemployment creates social unrest in the economy. The people are not able to satisfy their basic needs therefore, they may resort to all sorts of undesirable methods of earning money. Crimes and terrorism may result in society.

States like Kerela and Assam have reported highest unemployment rates as well as highest crime rates. Most of the Indian sates follow the same except a few exceptions. This shows a direct connection between unemployment and crime rate.

Even in United States of America a new study provides some of the best evidence to date that low wages and unemployment make less-educated men more likely to turn to crime.

Researchers have examined national crime rates between 1979 and 1997 and found that much of the increase in crime during that period can be explained by falling wages and rising unemployment among men without college educations.

Unemployment divides the society into have and have-nots. Accordingly, there is a class conflict that compounds the problem of social unrest.²⁸

²⁶ *Id.*

²⁷ *Id.*

²⁸ Jeff Grabmeier, Higher Crime Rate Linked to Low waged and unemployment, Study Finds, Research News, Available at <http://researchnews.osu.edu/archive/crimwage.htm> (last accessed on Oct. 17, 2016, 11:20 p.m.)

4. GOVERNMENT MEASURES TO CHECK UNEMPLOYMENT AND POVERTY IN INDIA

“Growth with Social Justice” has been the basic objective of the development planning in India. The prevalence of unemployment and poverty are viewed as the most serious concern for development of the country. However the Government did not frame any specific long-term policy for solving the unemployment problem. It was earlier believed that the economic growth would result in increased employment opportunities of the growing labor force. This, however, did not happen, as the number of unemployed increased from 22 million in 1969 to 42 million in 2004. The Government, therefore, laid increased emphasis on taking up schemes for providing additional employment opportunities and various special schemes of employment generation under both self-employment and wage-employment programs. Pradhan Mantri Kaushal Vikas Yojana (PMKVY) is a recent skill development initiative scheme of the Government of India for recognition and standardization of skills of labor.²⁹

A. National Rural Employment Guarantee Act (NREGA)

The NREGA bill was notified in 2005 and came into force in 2006. It was later modified as the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) in 2008. This scheme guarantees 150 days of paid work to people in the rural areas. The scheme has proved to be a major boost in Indian rural population's income.

The main objective of the act was to augment wage employment opportunities by providing employment on demand and by specific guaranteed wage employment every year to households, whose adult members volunteer to do unskilled manual work to thereby extend a security net to the people and simultaneously create durable assets to alleviate some aspects of poverty and address the issue of development in the rural areas.³⁰

The Ministry of Rural Development (MRD) is the nodal Ministry for the implementation of NREGA. It is responsible for ensuring timely and adequate resource support to the States and to the Central Council. It has to undertake regular review, monitoring and evaluation of processes

²⁹ Poverty alleviation programmes in India, Wikipedia, available at https://en.wikipedia.org/wiki/Poverty_alleviation_programmes_in_India (Oct. 19, 2016, 3:20 p.m.),

³⁰ *Id.*

and outcomes. It is responsible for maintaining and operating the MIS to capture and track data on critical aspects of implementation, and assess the utilization of resources through a set of performance indicators. MRD will support innovations that help in improving processes towards the achievement of the objectives of the Act. It will support the use of Information Technology (IT) to increase the efficiency and transparency of the processes as well as improve interface with the public. It will also ensure that the implementation of NREGA at all levels is sought to be made transparent and accountable to the public. Now 100 to 150 days work for all is provided.³¹

B. Integrated Rural Development Program (IRDP): IRDP is one of the most ambitious programs to alleviate rural poverty by providing income-generated assets to the poorest of the poor. This program was first introduced in 1978-79 in some selected areas. However, it covered all the areas by November 1980. During the sixth five-year plan (1980–85) assets worth 47.6 billion rupees were distributed to about 16.6 million poor families. During 1987-88, another 4.2 million families were assisted with an average investment of 4,471 per family or 19 billion rupees overall.

The main objective of IRDP is to raise families of identified target group below poverty line by creation of sustainable opportunities for self-employment in the rural sector. Assistance is given in the form of subsidy by the government and term credit advanced by financial institutions (commercial banks, cooperatives and regional rural banks.) The program is implemented in all blocks of the country as centrally sponsored scheme funded on 50:50 basis by the center and the states. The target group under IRDP consists of small and marginal farmers, agricultural laborers and rural artisans having annual income below Rs. 11,000 defined as poverty line in the Eighth Plan.³²

C. Prime Minister Rozgar Yojana: This scheme was announced by the Prime Minister on 15th August, 1993 to provide self-employed opportunities to one million educated unemployed youth in the country. The Scheme has been formally launched on 2nd October, 1993.

³¹ *Id.*

³² *Id.*

The PMRY has been designed to provide employment to more than one million by setting up of 7 lakhs micro enterprises for the educated unemployed youth. It relates to the setting up of the self-employment ventures through industry, service and business routes. The scheme also seeks to associate reputed non-governmental organizations in the implementation of PMRY scheme especially in the selection, training of entrepreneurs and preparation of project profiles.

5. CONCLUSION AND SUGGESTIONS:

Poverty can be reduced only when the people are properly employed. Employment will result in the elimination of poverty and crime from the society. In the past 20 years the labor force in India has increased by 2.5% per annum. However, the employment rate has increased at the rate of 2.2% per annum. This implies that the number of unemployed has been on a rise. Despite the rich endowment with natural resources, its poverty profile presents a somber picture of a rich nation in decline. It has been proved earlier that unemployment is one of the biggest reasons behind the commission of crimes. Hence it is high time for us to take some innovative measures to curb unemployment and poverty.

The first thing which needs to be done is increase in production. To increase the employment rate we need to increase the production rate of both agriculture and industrial sectors. The development of small industries needs to be encouraged. When production will increase then the demand of labor will also increase which would result in the employment of the unemployed laborers.³³

Further, demand for labor is directly related to the productivity of the labor. If the labors are more efficient then their demand would increase which would result in higher profits for the employers. Thus, we have to increase the productivity of the labors in order to increase their demand. We also need to encourage capital formation in such activities which would generate greater employment opportunities.³⁴

³³ Surbhi Arora, Economics for Law Students, at 244 (2nd ed. 2014).

³⁴ *Id.*

Apart from that around 62% people in India are self-employed in which most of them are employed in the agriculture sector. The government need to provide better facilities to the self-employed people in order to increase their output (Production).³⁵

We also have to reform our education system. Emphasis should be laid on vocational education. Further institutions providing employment information and guidance should be strengthened. Their activities have to be properly co-ordinated with employment agencies.³⁶

Under the five year plans government should give importance to such schemes and programmes which would raise the employment level. For eg: Development of irrigation, power, agriculture, forestry, soil conservation, construction etc...³⁷

Besides all this we need to take a major step without which all the efforts to tackle the problem of unemployment will go in vain. That very major step is a check on the population. We need to adopt an effective population control policy because the resources are limited.³⁸

If we take such measures then we will be able to solve the problem of unemployment as well as poverty. This will also result in the reduction of crimes in the society. Hence, we would be making India a better place to live in.

³⁵ *Id.*

³⁶ *Id.*

³⁷ *Id.*

³⁸ *Id.*