

# **EMPLOYMENT AND UNEMPLOYMENT SCENARIO IN INDIA**

## **1. APPROACH TO EMPLOYMENT IN ECONOMIC PLANNING.**

Planning in India focused at realizing a high rate of growth of output in the long term. A basic assumption was that shortage of capital goods in relation to employable persons constituted a fundamental constraint on growth in the economy. Therefore the planning process made no attempt to define an independent employment strategy; the focus on economic growth was viewed as essential for improving the employment situation. Initially, labour force expansion was not seen as a problem to be contented with. Thus, in the Five Year Plans, the generation of employment was viewed as part of the process of development and not as a goal in conflict with, or to be pursued independently of economic development.

## **2. EMPLOYMENT PLANNING IN INDIA**

The approaches to tackling the task of unemployment have varied from time to time. In the initial years of planning reliance was placed primarily on the expectations of a rapid industrial development and control of population. These expectations did not materialise and it was observed that the rate of growth of employment was generally much lower than the GDP rate of growth of the economy. Seasons of severe drought and failure of monsoons exposed large sections of population to extensive deprivations. Successive plans, strategies, policies and programmes were, therefore, re-designed to bring about a special focus on employment generation as a specific objective. The seventies and eighties saw the emergence of special schemes like NREP, RLEGP to provide wage employment through public works programmes and schemes to promote self-employment and entrepreneurship through provision of assets, skills and other support to the unemployed and the poor. While employment levels expanded steadily during the seventies and eighties, the rate of growth of employment continued to lag behind that of the labour force. Unemployment among the educated showed a rising trend. Another feature of the employment situation is the sizeable proportion of the employed working at low levels of the productivity and income. The eighties exposed the weakness in the then ongoing strategies of expanding public sector irrespective of competition.

## **3. POVERTY ALLEVIATION AND EMPLOYMENT GENERATION PROGRAMMES**

Anti-poverty strategy comprises of a wide range of poverty alleviation and employment generation programmes, many of which have been in operation for several years and have been strengthened to generate more employment, create productive assets, impart technical and

entrepreneurial skills and raise the income level of the poor. Under these schemes, both wage employment and self-employment are provided to the people below the poverty line. In 1998-99, various poverty alleviation and employment generation programmes are grouped under two broad categories of Self-Employment Schemes and Wage Employment Schemes. Funding and organisational patterns are also rationalised to achieve better impact. These programmes are primarily meant for poverty alleviation and have generally not been helpful in sustainable employment generation.

#### **4. GLOBAL EMPLOYMENT SCENARIO**

The global employment and unemployment situation according to the World Employment Report 1998-99, was as follows:

- Out of an estimated 6 billion population in the year 1997 around 3 billion was in the labour force.
- 160 million persons have been estimated to be fully unemployed.
- 25 to 30 percent of the employed labour force is under employed.
- A large number of young people in the age group of 15 and 24 (around 60 million in 1997) are continuously in search of work ie. unemployed.

A few important conclusions which emerges from the above report are:

- Limited demand for unskilled and less skilled labour.
- Increase in demand for skilled labour on account of technological development and upgradation and changes in the organisation of work
- Problems in maintaining the continued employability of labour force
- Demand for multi skilling.

Some of the important strategies recommended in the World Employment Report are:

- Timely Investment in skill development and training at enhanced level.
- Enhancement of education and skill level of workers
- Responsive training system.
- Need for effective partnership of all stake holders.

## 5. EMPLOYMENT & UNEMPLOYMENT SCENARIO IN INDIA

In India, due to the agrarian sector with seasonal operations **time disposition** and availability for work have been the criteria for measuring employment. The accepted method of measuring employment is the usual status. Reliable estimates of employment/unemployment are generated through National Sample Surveys conducted once in five years by National Sample Survey Organisation (NSSO). The concept recognises **time utilisation** only. **Quality of work or income does not get reflected in the approach.**

As per the results of the National Sample Survey conducted in 1999-2000, total work force as on 1.1.2000, as per **Usual Status approach** (considering both principal and subsidiary activities) was of the order of 406 million. About 7 % of the total work force is employed in the formal or organised sector (all public sector establishments and all non-agricultural establishments in private sector with 10 or more workers) while remaining 93% work in the informal or unorganised sector. The size of the Organised Sector employment is estimated through the Employment Market Information Programme of DGE&T, Ministry of Labour. The capacity of the organised sector to absorb additional accretion to the labour force, taking into account the current accent on modernisation and automation, is limited. In other words, an overwhelming proportion of the increase in the labour force will have to be adjusted in the unorganised sector. About 369 million workers are placed today in unorganised/informal sector in India; agriculture workers account for the majority of this work force.

The employment and unemployment scenario as per this approach depict the following picture.

**Table-1**

**Estimates of population, labour force, employment and unemployment (in million)**

|   | <u>1983</u> | <u>1988</u> | <u>1994</u> | <u>1999-<br/>2000</u> |
|---|-------------|-------------|-------------|-----------------------|
| Estimated population                              | 718.21      | 790.00      | 895.05      | 1004.10               |
| Labour Force                                      | 308.64      | 333.49      | 391.94      | 406.05                |
| Employed  | 302.75      | 324.29      | 374.45      | 397.00                |
| Unemployed  | 5.89        | 9.2         | 7.49        | 9.05                  |
| Unemployment rate (as percentage of labour force) | 1.91        | 2.76        | 1.96        | 2.23                  |
| Employment in organized sector                    | 24.01       | 25.71       | 27.37       | 28.11                 |
| Employment in unorganized sector                  | 278.74      | 298.58      | 347.08      | 368.89                |

**GDP growth                      7.7                      3.8                      5.9                      6.4**

**Note:**

1. Employment , Unemployment , Unemployment rate and Labour force are on Usual Status basis and are based on estimates given in various rounds of NSSO
2. Population estimates are as per projection made by Expert Committee on Population projection.
3. Organized sector employment are on the basis of data collected by DGE&T.
4. GDP growth rates are from Central Statistical Organisation.

Growth of labour force, employment and unemployment during 1983-2000 observed were as under:

**Table-2**  
**Growth of population, labour force, employment and unemployment**

|       | <u>Growth rate</u><br>(%)      | <u>1983-94</u> | <u>1994-2000</u> |
|-------|--------------------------------|----------------|------------------|
| (i)   | Population                     | 2.12           | 1.93             |
| (ii)  | Labour Force                   | 2.05           | 1.03             |
| (iii) | Employment                     | 2.04           | 0.98             |
| (iv)  | Organized sector<br>employment | 1.20           | 0.53             |
|       | Public                         | 1.52           | -0.03            |
|       | Private                        | 0.45           | 1.87             |

**Note:**

*Employment, Unemployment, Unemployment rate and Labour Force are on usual Status basis and are based on estimates given in various rounds of NSSO.*

*Population estimates are as per projection made by Expert Committee on Population Projection.*

*Organized sector employment is on the basis of data collected by DGE&T.*

*GDP growth rates are from Central Statistical Organisation.*

*The rates of growth of labour force, employment, population and organized sector employment are compound rates of growth.*

Special Group headed by Dr.S.P.Gupta has adopted Current Daily Status Approach and projected employment, unemployment and labour force. According to this approach the unemployment during 1999-2000 was of the order of 27 million. The number of persons who could have got full employment with the work available in the economy is estimated as employment as per this approach. The difference between labour force and employed gives estimates of unemployment.

**Salient points on employment and unemployment scenario are:**

- The rate of growth of employment declined sharply from 2.04% per year in the period 1983-94 to only 0.98% per year in the period 19994 to 2000.
- There was sharp deceleration in the growth of labour force from 2.05% in the period 1983-94 to only 1.03% in the period 1994-2000.
- Growth rate of employment is less than the growth rate of the labour force indicating an increase in the unemployment rate.
- The open unemployment which is of the order of 9 million is not significant compared to the size of the population in the country.

- Though, open unemployment is only 2.23% (9 million), the percentage of the population below the poverty line is as high as 26.1%. The fact of being employed is obviously no guarantee of escaping from poverty, which in our situation refers to a very basic level of subsistence.
- Percentage of population below the poverty line which was of the order of 36% in 1993-94, has come down to 26.1% indicating that during the period 1994-2000 improvement in the income level of the employed had taken place.
- Organised sector employment is not growing and its share is only 7% of the total employment.
- There was decline in self-employment whereas regular salaried and casual employment showed an increasing trend during 1993-94 to 1999-2000.
- There was substantial increase in the average daily wage earnings in the rural areas.

## **6. EMPLOYMENT GENERATION IN INDIA**

- 7% of the total employed are in the organised sector i.e., unorganised sector dominates in the employment scenario.
- Additional employment generation in the organised sector is not significant i.e., scope for additional wage employment in the organised sector continued to be less.
- Significant employment generation took place in the tertiary sector particularly in services industries.
- Substantial employment growth was observed in the small and unorganised sector, i.e., in small and tiny enterprises.
- Self-employment and casual labour continued to play a pivotal role in rehabilitation of the unemployed.

## **7. TRENDS IN EMPLOYMENT AND UNEMPLOYMENT.**

Salient points which emerges out from the data are:

- a) Both growth of population and labour force have shown substantial decrease. This is a positive signal. While the reduction in growth rate of population may be due to special efforts of the Government and the awareness among the people, the reduction of growth rate of the labour force to such an extent has not yet been fully explained. One of the reasons may be that more children (particularly girls) are joining educational institution rather than joining the labour force.

- b) Growth of employment during 1994-2000 has substantially gone down and growth in absolute term is not much. Whatever growth has occurred was in informal sector where quality of employment is poor.
- c) Since labour force growth has substantially come down the decrease in growth of employment does not distort the over all employment and unemployment scenario.
- d) Little Growth in the organised sector employment has been noticed in the private sector. Public sector has shown a negative growth. Share of public sector in the overall organised sector employment being around 3/4<sup>th</sup> the increase in private sector employment cannot change the organised sector scenario.
- e) Organised sector employment has not improved in spite of various policy incentives through plan exercises, globalization and economic liberalization. Growth of informal sector has been primarily on account of necessity. Therefore to what extent employment generation through normal growth process, where economic growth in terms of GDP is attempted, took place or can take place is a subject of debate. If unemployment is considered a major issue then question is whether we should have employment objective rather than growth objective in our national plan.
- f) Growth in the organised sector, particularly of small size is hindered by local politics. Small size organised sector is subjected to various pressures e.g. providing employment to persons without any skill, cash subscriptions etc which the establishment may not be able to sustained. The result is either the enterprise is not viable or the entrepreneur finds investment risky.
- g) Due to various reason which include avoiding labour laws, the entrepreneur prefers to remain on small scale in various locations.
- h) Market being too much competitive in view of globalisation and economic liberalization, marketing of product by small enterprise may be difficult.
- i) Growth rate of employment and growth rate of the economy appears to be uncorrelated. Therefore projection of employment on the basis of GDP growth (by calculating employment elasticity) appears to be not logical. Such projections are being used by Planning Commission and we always find that it is always off the target.

## **8. Skill level of Labour Force in India**

- The overwhelming majority of the work force, not only in rural areas but also in urban areas, does not possess any identifiable marketable skill. In urban, only about 19.6% of

male and 11.2% of female workers possessed marketable skills. Whereas, in rural areas only about 10% of male and 6.3% of female workers possessed marketable skills.

- Most of the job seekers (about 80%) in employment exchange are without any professional skill.

### International Comparison

- The levels of vocational skills in the labour force in India compare poorly with the position in other countries.
- Only 5% of the Indian labour force in the age category 20-24 has vocational skills obtained through formal training whereas the percentage in industrialised countries is much higher, varying between 60% and 80%, except for Italy, which is about 44%. The percentage for Korea, which has recently been categorised as an industrialised country, is exceptionally high at 96%. The developing countries have percentages which are significantly lower than the developed countries, but they are still much higher than India e.g. Mexico at 28% and Botswana at 22%. Differences in definition may make inter-country comparison somewhat unreliable, but the level in India is clearly far too low.

### 9. EMPLOYMENT VIS-A-VIS TRAINING NEEDS.

- A part of the unemployment problem emanates from the mismatch between the skill requirements of employment opportunities and the skill base of the job-seekers.
- Rapid expansion of education, particularly of higher education, has also contributed to the mismatch in the labour market. While shortages of middle level technical and supervisory skills are often experienced, graduates and post-graduates in arts, commerce and science constitute a large proportion of job-seekers. **High private rates of return on higher education, to a large extent resulting from low private cost, is an important reason for the rush for higher education despite high incidence of educated unemployment.**
- The mismatch is likely to become more acute in the process of rapid structural changes in the economy.
- It is, therefore, necessary to reorient the educational and training systems towards improving its capability to supply the requisite skills in the medium and long term, and introduce

greater flexibility in the training system so as to enable it to quickly respond to labour market changes in the short run.

- the system should also be in a position to impart suitable training to the large mass of workers engaged as self-employed and wage earners in the unorganised sector for upgradation of their skills, as an effective means for raising their productivity and income levels.
- The existing training institutions like the ITIs / ITCs (Industrial Training Institutes/Industrial Training Centres. There are 4700 Institutes/Centres imparting training to 6.9 lakh trainees.) have no doubt, been meeting a significant part of the requirements of the skilled manpower of organised industry. It, however, seems necessary that the processes of restructuring and reorientation of their courses are made more expeditious with a view to quickly respond to the labour market.
- As the responsibility for imparting training devolves on a number of agencies - in central and state governments, NGOs and private bodies there is need for clearly identifying and strengthening coordination at various levels.
- A greater involvement of industry in planning and running the training system would also be necessary for this purpose.

## **10. RECENT POLICY RECOMMENDATIONS**

10.1 Considering the problems of employment and unemployment situation in the country Planning Commission set up a Task Force under the chairmanship of Dr. M.S. Ahluwalia to go into the details of the employment generation taking place in the economy and suggest measures for creation of 100 million jobs (10 million per year) in a period of 10 years.

The Task Force has recommended intervention in five major areas as under:

- Accelerating the rate of growth of GDP, with a particular emphasis on sectors likely to ensure the spread of income to the lower income segments of the labour force.
- Pursuing appropriate sectoral policies in individual sector, which are particularly important for employment generation. These sector level policies must be broadly consistent with the overall objective of accelerating GDP growth.
- Implementing focused special programmes for creating additional employment of enhancing income generation from existing activities

aimed at helping vulnerable groups that may not be sufficiently benefited by the more general growth promoting policies.

- Pursuing suitable policies for education and skill development, which would upgrade the quality of the labour force and make it capable of supporting a growth process which generates high quality jobs.
- Ensuring that the policy and legal environment governing the labour market encourages labour absorption, especially in the organized sector.

10.2 Various agencies like McKinsey & Company have also studied the details and have come out with some policy recommendations. The Policy recommendations suggested in the report of McKinsey & Company are as follows.

- ❖ Remove product reservation for small-scale industry.
- ❖ Equalize sales tax and excise duties for all companies within a sector and strengthen enforcement.
- ❖ Establish an effective regulatory framework and strong regulatory bodies in the telecom and power sectors.
- ❖ Remove all licensing and quasi-licensing restrictions that limit the number of players in an industry.
- ❖ Reduce import duties to ASEAN levels (10 per cent) over next 5 years
- ❖ Remove ban on FDI in the retail sector and allow 100 per cent FDI in all sectors
- ❖ Resolve unclear real estate titles.
- ❖ Reform tenancy laws to bring rents in line with market value.
- ❖ Privatize all state and central public sector units (PSUs).
- ❖ Reform labour laws by repealing Section-5B of the Industrial Disputes Act and allowing flexibility in the use of contract labour.
- ❖ Transfer management of existing transport infrastructure to private players, and contract out construction and management of new infrastructure to private sector.
- ❖ Strengthen agricultural extension services.
- ❖ Rationalize property taxes, stamp duties, user charges

According to them if these policy recommendations are implemented 75 million jobs will be created and this will be enough to absorb the expected surge in the work force.

⇒ While the policy recommendations of the Mckinsey & Company are interesting, it appears from the analysis of the report that this may lead to opening the economy to all multinational companies in each and every sector. Under such situation, the local industries may

find it difficult to exist in the labour market and the entire economy will be driven by the outside agencies.

⇒ The report does not analyse the job losses which may be occurring due to implementation of the policies recommended. The job losses may outsmart the additional employment generation. Further study is, therefore required before such drastic steps as recommended are considered.

10.3 A special group in the Planning Commission was constituted under the Chairmanship of Dr. S.P.Gupta, Member, Planning Commission to suggest strategies and programmes in the Tenth Plan for creating gainful employment opportunities for one crore people per year during each year of the Tenth Plan. The special group has also submitted its report in May 2002.

The special group has also suggested restructuring in the following sectors in favour of labour intensive activity for generating additional gainful job opportunities for the Tenth Plan.

- a. Agriculture & allied sectors.
- b. Greening the country through Agro Forestry
- c. .Energy Plantation for Biomass power Generation.
- d. Rural Sectors and Small and medium enterprises(SMEs).
- e. Education and Literacy.
- f. Employment through ICT Development.
- g. Health, Family and Child Welfare.

According to the Special Group report, out of the proposed 5 crore job opportunities to be generated over the Tenth Plan Period, nearly 2 crore should come from specific employment generation programme and 3 crore from growth buoyancy. The estimated composition of job opportunities is given below.

## The Estimates of potential job opportunities in different sectors

| Sectors/Programmes  | Total Additional job opportunities created over the 10 <sup>th</sup> Plan (in lakhs) |                 | Total (in lakhs)               |
|---|--|-----------------|--------------------------------|
|   | Growth based   | Programme based |                                |
| <b>Agriculture Including National Watershed Development Project for Rainfed Areas (NSDRPA), Farm Management programme, Agro Clinics, Greening India Programme, Watershed and Wasteland Development, Medicinal Plant, Bamboo Development and Energy Plantation like Ethanol etc.</b> | <b>4.1</b>   | <b>90.6</b>     | <b>94.7</b>                    |
| <b>Mining &amp; Minerals</b>  | <b>-2.0</b>  |                 | <b>-2.1</b>                    |
| <b>Manufacturing (Excl. Prime Minister's Rozgar Yojana (PMRY) &amp; Rural Employment Generation Programme (REGP))</b>   | <b>14.2</b><br>(large manufacturer)<br><b>60.0</b><br>(SSI)                          |                 | <b>14.2</b><br><br><b>60.0</b> |
| <b>Electricity, Gas &amp; Water</b>   | <b>-2.1</b>  |                 | <b>-2.1</b>                    |
| <b>Construction</b>   | <b>63.0</b>  |                 | <b>63.0</b>                    |
| <b>Trade, Hotels &amp; Restaurants</b>  | <b>112.3</b>   |                 | <b>112.3</b>                   |
| <b>Transport, Storage &amp; Communications</b>  | <b>55.1</b>  |                 | <b>55.1</b>                    |
| <b>Financial Sector</b>   | <b>19.3</b>  |                 | <b>19.3</b>                    |
| <b>Community Sector</b>   | <b>-27.1</b>   | <b>32.0</b>     | <b>4.9</b>                     |
| <b>Special Programmes</b>   |  |                 |                                |
| <b>Prime Minister's Rozgar Yojana (PMRY) (SSI) &amp; REGP (KVIC)</b>  |  | <b>22.0</b>     | <b>22.0</b>                    |
| <b>Sampoorna Gramin Rozgar Yojana (SGRY)</b>  |  | <b>20.0</b>     | <b>20.0</b>                    |
| <b>Pradhan Mantri Gram Sadak Yojana (PMGSY)</b>   |  | <b>12.9</b>     | <b>12.9</b>                    |
| <b>&amp; Swarna Jayanti Gram Swarozgar Yojana (SGSY)</b>  |  | <b>7.7</b>      | <b>7.7</b>                     |
|   |  | <b>8.0</b>      | <b>8.0</b>                     |
| <b>Total</b>  | <b>296.8</b>   | <b>193.2</b>    | <b>490.0</b>                   |

*Note: Totals may not tally due to rounding off.*

**Source: Report of the Special Group**