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**DAILY EDITORIAL
ANALYSIS**

TOPIC

Macroeconomic Reasons for
India's Jobs Crisis

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MACROECONOMIC REASONS FOR INDIA'S JOBS CRISIS

Context:

- Official data sources and reports found that India continues to be going through a jobs crisis.

Key Highlights : Macro-economic reasons

Low Labour Demand:

- The Indian economy has historically been characterised by **the presence of open unemployment** as well as high levels of **informal employment (i.e. disguised unemployment)** consisting of the **self-employed** as well as casual wage workers.
 - ♦ **Economic policy** is generally framed in terms of output growth (GDP or value-added), rather than the level of output.

Structural Unemployment

- It comes through a technological change in the structure of the economy that can lead to unemployment among workers displaced from jobs due to new age technologies.
- The labour demand in the **formal non-agricultural sector** is determined by **factors** like:
 - ♦ Labour demand rises when demand for output rises under any given level of technological development.
 - ♦ Introduction of **labour-saving technologies** like **automation** enables firms to produce the same amount of output by hiring a lower number of workers.

Growth and Labour Productivity:

- **Employment growth** is determined by the relative strength of **two factors** — **the output growth rate and the labour productivity growth rate**.
 - ♦ If labour productivity growth rate does not change, higher output growth rate increases employment growth rate.
 - In other words, policies that promote higher economic growth would also achieve higher employment growth.
 - ♦ On the other hand, if labour productivity growth rate rises, employment growth rate falls for a given output growth rate.

Jobless growth:

- The employment growth rate of the **formal and non-agricultural sector** remained **unresponsive** despite a **significant rise in the GDP growth rate** and the value added growth rate during the 2000s as compared to the decade of the 1980s and 1990s.
 - ♦ The lack of responsiveness of employment growth rate to changes in output growth rate reflects a phenomenon of jobless growth.
- It indicates a **strong connection between labour productivity growth rate and output growth rate**.

Economies of Scale:

- As an economy grows, it is generally seen that it also becomes more productive.
- In the process of producing a greater amount of total output, firms become capable of producing more output per worker.
 - ♦ As firms produce more output, they find it easier to adopt labour-saving technologies.
- If the responsiveness of labour productivity growth rate to output growth rate is weak, the **possibility of jobless growth** emerges exclusively on account of automation and the introduction of labour-saving technology.

- ◆ Under weak responsiveness of labour productivity, the positive effect of GDP growth rate on employment would dominate over the adverse effect of labour-saving technologies.

Solution to the jobs crisis:

Macroeconomic Policy Framework:

- Implementing the objectives of **National Employment Policy (NEP)**: A separate policy focus is needed on employment, focusing on both demand side and supply side components in addition to the focus on GDP growth.
- Increasing the quality of the workforce through better public provisioning of education and health care, as well as bridging the skills gap.
 - ◆ On the demand side, direct public job creation will be needed.
- **Other measures** like introduction of the **Urban Version of MGNREGA**, increasing industrialization and investment in agriculture with diversification to generate more employment along with the promotion of agro-processing industries near urban centres.
- There is a need to expand education and healthcare and provide vocational and technical training to enhance the skills and employability of the workforce.

Do you know ?

Keynesian revolution in Macroeconomics:

- Keynes states that in times of economic crisis, the government needs to increase public spending and cut indirect taxes, to revive the economy.
- The **public expenditure on capital assets** leads to a **crowd-in effect**.
 - ◆ The role of aggregate demand is the binding constraint on employment.
- Similarly, the cut in taxes induces demand, thereby raising production, leading to the revival of economic activity in the country.

The Mahalanobis Strategy:

- It identified the availability of capital goods as the binding constraint on output and employment, putting forward the policy for heavy industrialisation.

The Kaldor-Verdoorn Coefficient:

- The extent to which **labour productivity growth rate responds to output growth rate**.
 - ◆ **India's non-agricultural sector** is characterised by a higher than average Kaldor-Verdoorn coefficient, as compared to other developing countries.

Conclusion:

- The unemployment rate impacts the Indian economy by influencing spending, growth, and job opportunities. A high rate hinders economic progress and can lead to social unrest, while a low rate indicates a thriving job market and a growing economy.
- Policymakers need to **trade-off** GDP growth rate with addition of workforce in the economy for job creation and economic development simultaneously.

Additional Information:

- The data on Employment and Unemployment is collected through **Periodic Labour Force Survey (PLFS)** conducted by **National Statistical Office (NSO)**, Ministry of Statistics & Programme Implementation (MoSPI) since 2017-18.

Employment prevailing in an Indian economy.

- 1. Wage employment:** It is a result of labour demanded by employers in their pursuit of profits.
- 2. Self-employment:** Labour supply and labour demand are identical, i.e., the worker employs herself.
 - The wage labour includes all forms of labour done for an employer including daily wage work at one extreme and highly paid corporate jobs at the other.

- ◆ Employed: Individuals who are currently engaged in economic activities.
- ◆ Unemployed: Individuals who are seeking or available for work but are currently without employment.
- ◆ Not seeking or available for work: Individuals who are neither actively seeking nor available for employment.
- Jobs generally refer to relatively better paid regular wage or salaried employment.
- In other words, ***all jobs are wage labour, but all wage labour cannot be called jobs.***

DAILY MAINS QUESTION

What are the major reasons for India's 'jobless growth'? Analyse its impact on the Economy of India and highlight the efforts to tackle the issue of jobless growth in India

