Ensuring Sustainability of Jobs amidst India’s Burgeoning Working Population

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Abstract

Around the world, youth are facing the problem of unemployment. The labour market challenges for most of the economies have been the slow pace of economic growth. Indian economy is also facing the problem of unemployment, with the unemployment rate highest in 45 years. But, for India the problem is an unusual one where on one hand it has emerged as an economy with a supersonic growth, on the other hand jobs are elusive for its demographic dividend. The country today is struggling with high levels of unemployment in every sector, which if not tackled can lead to a catastrophe. Specific structural changes in the Indian economy have led to the emergence of ‘grave unemployment’. This paper explores the possible causes and solutions to the problem of unemployment being faced by the country.

Key Words: Demographic, GDP, India, Liquidity, Unemployment.

I. Introduction

J. B. Say in the year 1803 gave the economic decree that supply creates its own demand. The precursor phase to this economic decree by Say was a witness to employers exploiting workers by overworking them to increase the production capacity of organisations. When this law was written, industrial revolution had just set-in with production being regarded as a goose that laid golden eggs leading to employment generation, creation of purchasing power and consumers. The first phase of industrial revolution was seen by the employer class as an alternative to dependency on labour with industrialists well receiving the machine age amidst the revolt from the workforce against the adoption of mechanisation.

In the joyous outcome to the first phase of industrial revolution, increase in production of goods witnessed a swelling in the producers’ earnings. Gross Domestic Product (GDP) of economies also saw a growth. Amidst this, cautious voices emerged with many experts and industrialists worrying over surplus production and inability of the markets to create demand for such goods. But, Say’s Law of Market reassured the prudent voices and saw rampant use of machines by industrymen.

The first collateral damage of industrial revolution and excess production was the weakening of macroeconomic fundamentals and the failure of J.B.Say’s prophecy. Aggregate supply had failed to create aggregate demand. The worsening condition led to the Great Depression of the 1930’s. The depression saw economies collapsing with high unemployment levels. Global Gross Domestic Product languished creating a global economic catastrophe.
Keynes in 1936 propounded the theory of employment in his book ‘General Theory of Employment, Interest and Money’. Keynes opined that full employment is a myth and contrary to the notion, there is unemployment in every economy. According to Keynes, the main reason for unemployment was the deficiency of aggregate demand. And to create employment, aggregate demand in economies should be in tandem with aggregate supply. The terminology coined for such sufficient demand was ‘effective demand’. It is only when economies fail to create effective demand that macroeconomic fundamentals are shaken with rise in unemployment followed by low incomes, unreceptive markets for the goods produced, low investments and falling GDPs.

Economies around the world in the Post-Keynesian period started working towards the creation of employment and a causation cycle of high incomes, high demands, increase in aggregate investment and GDPs. Vice versa, high GDPs ensured the creation of adequate levels of employment. However, this maxim too has failed like the Say’s Law of Market. World economies are today facing high levels of unemployment - in developed, developing and underdeveloped economies despite high GDP growth. The Indian economy today is the fastest growing economy in the world. Having said that, it is also the economy that is facing an unemployment conundrum.

The Indian economy in the early 2000s was declared as the economy at a premium, with it being at the threshold of transition into the emerging demographic dividend. Comparisons were laid as to why India is the next supersonic economy with economies around the world facing the under population crises or the aging population period. Today, the Indian economy has entered into the age of demographic dividend but alongside what is also glaring is its inability to create jobs for the young and the strong working age group. Millions of young workforce - educated and uneducated - are either unemployed or underemployed.

The objective of this paper is to study the reasons for high unemployment levels in the Indian economy despite high growth numbers. The paper also explores the possible solutions to this problem of grave unemployment.

II. Causes & Solutions to the Burgeoning Unemployment Numbers

Though the problem of unemployment is not a new one for the Indian economy, still its magnitude today is alarming. As quoted by Business Standard ⁴, according to the NSSO’s (National Sample Survey Office) periodic labour force survey, India’s unemployment rate stands at an all time high in 45 years at 6.1 percent in 2017-18 with youth facing higher rates of unemployment than others. The survey also shows a decline in labour force participation rate (LFPR)⁶ post demonetisation with rising levels of unemployment which reflects on the graveness of the situation.

The nemesis to the current unemployment problem cannot be zeroed down to a specific singular cause. Job markets in India are being influenced by various changes, policy decisions, occurrences that have adversely affected the macroeconomic structure, the effect of which has been high levels of unemployment. The prominent causes for the unemployment mystery despite high growth rates possibly are: 


A) Demographic Factors

According to the United Nations, the current world population of 7.6 billion is projected to reach 8.6 billion in 2030 and 11.2 billion in 2100. India’s exponential population growth has resulted in an alarming state of joblessness. With 1.3 billion inhabitants, India has an employment to population ratio of 51.89 (+ more). Earlier the country’s agrarian sector would absorb most of its workforce but with the passing of time as more farms have opted for mechanisation, the need for human resource and manpower in agriculture has reduced. For years, politics of agriculture has been played in India where to avoid public wrath, political parties have stirred clear in drafting a stringent population policy that curtails the growth of population. With more young people being added to this population base, the emergent need for India is to contain population growth in order to avoid worsening of the unemployment situation. For the same, India needs to draft a stringent population policy on the lines of China. Time has come to introduce the Population Control Bill that was tabled by some parliamentarians in front of the President of India in the Monsoon Session of 2018. If the Population Control Bill is passed then no person shall be allowed to procreate more than two living children after a period of one year from the commencement of this Act.

B) Infusing Liquidity

Though, the Indian economy expanded at 8.2 percent in the year 2018-19 Q1, it is not enough to take burden of the growing Indian workforce. According to the World Bank, India must create 8.1 million jobs every year. Especially after demonetization, that lowered the growth rate of the economy by 2 percent. Taking queue from Okun’s law, for one percent reduction in the Indian unemployment rate, GDP will have to be increased by 2 percent. Going by this, the current GDP rate will have to reach a double digit number for tackling the unemployment problem, which also goes to say that if the growth rate in India has slowed by 2 percent, due to demonetisation, unemployment rate has increased by a minimum of 1 percent.

Antidote to the liquidity strain due to demonetisation can be increasing liquidity in the economy. The liquidity deficit of Rs. 70,266 crores (as on 16th April, 2019) is an indication that the Indian banking system is unable to fund adequately consumption and investment expenditures. Chart 1 is an indication of liquidity deficit that the Indian economy is facing, with the gap widening with time and in turn adversely impacting India’s investment and consumption expenditures that are essential for job market growth.
Changing the Nature of Jobs

Today, the world is in the fourth phase of industrial revolution of robotics and artificial intelligence with technological innovations and developments leading to automation and mechanisation at work places, which is speedily replacing men for machines.

According to the World Economic Forum’s Report on Future of Jobs, 2016, 17 million persons are entering workforce every year in India as against the 5.5 million jobs being created. Automation has affected availability of jobs for human resources.

On the flip side, new technologies are also creating new job avenues with the old nature of jobs disappearing. It has also led to changes in production, consumption and distribution patterns. The solution to this change is a change in the approach of the workforce to adapt to new job opportunities by equipping themselves with the requisite skills. As suggested by the recent World Bank Report, Government’s around the world need to respond best by investing in human capital and building their skills matching with demand in labour market.

For example, though India’s construction sector is growing at a fast pace, it is unable to create adequate jobs due to mismatch between the skills required and skills acquired by the workforce. Further, the Indian Highways is developing fastest in the world with 27 kms of highways being built every day. Such a speed of growth in the sector is bound to create jobs.
As per the Ministry of Skill Development and Entrepreneurship Annual Report 2016-17, the building, construction and real estate sector will require 91 million human resources in the year 2022 as against 60.4 million in the year 2017. The incremental human resource requirement for the sector is an increase of 30.6 million as against a negative incremental human resource requirement for agriculture as shown in the table 1.1.

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>Agriculture</td>
<td>229</td>
<td>215.5</td>
</tr>
<tr>
<td></td>
<td></td>
<td>-13.5</td>
</tr>
<tr>
<td>Building , Construction &amp; Real Estate</td>
<td>60.4</td>
<td>91</td>
</tr>
<tr>
<td></td>
<td></td>
<td>30.6</td>
</tr>
<tr>
<td>Logistics, Transportation &amp; Warehousing</td>
<td>23</td>
<td>31.2</td>
</tr>
<tr>
<td></td>
<td></td>
<td>8.2</td>
</tr>
<tr>
<td>Construction Material &amp; Building Hardware</td>
<td>9.7</td>
<td>12.4</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2.7</td>
</tr>
</tbody>
</table>

Source: Ministry of Skill Development and Entrepreneurship Annual Report 2016-17, GoI.

To match with the emerging jobs in the construction and related sector, skill training needs be given. Among the top 04 sectors requiring skilled training from the period 2017-22, construction sector stands the tallest at 32 million with road transport and highway requiring skilled training for 6.22 million persons as shown in the chart 1.2.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Required Training (In Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Road Transport &amp; Highway</td>
<td>6.22</td>
</tr>
<tr>
<td>Beauty &amp; Wellness</td>
<td>8.2</td>
</tr>
<tr>
<td>Retail</td>
<td>10.7</td>
</tr>
<tr>
<td>Construction</td>
<td>32</td>
</tr>
</tbody>
</table>

Source: Ministry of Skill Development and Entrepreneurship Annual Report 2016-17, GoI.
Higher GDP

Central Statistics Office estimates place GDP growth in the last financial year as 6.7 percent. World Bank has pegged India’s growth rate at 7.5 percent for the three years from 2019 to 2021. These numbers are not enough to support the burgeoning workforce since the growth is good enough to support only 3-4 percent of employment growth. Taking clue form Okun’s law 2 percent GDP increase will decrease unemployment by 1 percent, and to bring down the unemployment rate to 3 percent, GDP increase of 12-13 percent is desirable. For the same, investment needs to be increased both on the domestic as well as on the foreign fronts.

According to the World Investment Report 2018, the share of global FDI inflow in the year 2017 for India has been of $ 39.96 billion. This is inadequate when compared with China, which received an FDI inflow of $136.3 billion in the year 2017. For increasing the share of India in global FDI inflows, rationalization of tax by the Indian Government is essential along with reduction in interest rates and improvement in infrastructure and logistics.

III. Conclusion

India’s youth unemployment crisis needs to be tackled immediately. Government needs to expedite framing of suitable policies and also in ensuring their implementation, as a remedy to the problem of Grave Unemployment. The solution lies, as discussed above, in providing skills to the young Indians in their formative years, containing population growth, speeding up growth numbers and creating a multiplier effect by infusing liquidity in the Indian economy.

End Notes

* According to International Labour Organisation (ILO) Labour Force Participation Rate is a measure of the proportion of a country’s working age population that engages actively in the labour market, either by working or looking for work. In India, persons aged between 15 to 64 years are considered as working age population.

** Okun’s law (named after Arthur Melvin Okun) studies the statistical relationship between a country's unemployment rate and its growth rate.

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