



THE PROBLEM OF UNEMPLOYMENT, POVERTY AND INEQUALITY

In India, the problems of unemployment and poverty have always been major obstacles to economic development. Regional disparity is also crucial in this context. Economic reforms, changes in the industrial policy and better utilization of available resources are expected to reduce the problem of unemployment and poverty. The governmental bodies are also required to initiate long term measures for poverty alleviation. Generation of employment opportunities and equality in income distribution are the two key factors that are of utmost important to deal with the dual problem of unemployment and poverty.



OBJECTIVES

After completing this lesson, you will be able to:

- explain the meaning, types and important measures of unemployment;
- identify the causes of unemployment;
- know the Government policies and programmes implemented to alleviate poverty and generate employment; and
- evaluate the extent and causes of regional disparity in India.

4.1 MEASUREMENT AND MAGNITUDE OF UNEMPLOYMENT IN INDIA

4.1.1 Meaning and Types of Unemployment

The population of any country consists of two components (i) **Labor Force** (ii) **Non-Labor Force**. Labor force means all persons who are working (i.e. being engaged in the economic activity) as well as those who are not working but are

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seeking or available for work at the current wage rate. It means the labor force consists of both employed and unemployed people.

The component of population which is not a part of the labor force is Non-Labor Force. It includes all those who are not working and are neither seeking nor available for work.

Unemployment can be defined as a state of worklessness for a person who is fit and willing to work at the current wage rate. It is a condition of involuntary and not voluntary idleness. Simply stated an unemployed person is the one who is an active member of the labor force and is seeking work, but is unable to find the same. In case of voluntary unemployment a person is out of job on his own accord or choice, doesn't work on the prevalent or prescribed wages. Either he wants higher wages or doesn't want to work at all. The involuntary unemployment on the other hand is the situation when a person is separated from remunerative work and devoid of wages although he is capable of earning his wages and is also anxious to earn them. It is the involuntary idleness that constitutes unemployment. Involuntary unemployment can be further divided into cyclical unemployment, seasonal unemployment, structural unemployment, frictional unemployment, natural rate of unemployment, disguised unemployment and under employment.

4.1.1.1 Cyclical Unemployment

Cyclical or demand deficient unemployment occurs when the economy is in need of low workforce. When there is an economy-wide decline in aggregate demand for goods and services, employment declines and unemployment correspondingly increases. Cyclical unemployment mainly occurs during recession or depression. This form of unemployment is most commonly known as cyclical unemployment since unemployment moves with the trade cycle. For instance, during the recent global slowdown in late 2008, many workers around the globe lost their jobs.

4.1.1.2 Seasonal Unemployment

This type of unemployment occurs in a particular time of the year or season and thus is known as seasonal unemployment. Seasonal unemployment is most common in industries like agriculture, tourism, hotel, catering etc.

4.1.1.3 Structural Unemployment

Structural unemployment arises when the qualification of a person is not sufficient to meet his job responsibilities. It arises due to long term change in the pattern of demand that changes the basic structure of the economy. The person is not able to learn new technologies used in the new expanding economic sectors and they thus may be rendered permanently unemployed. For instance, when computers were



introduced, many workers were dislodged because of a mismatch between the existing skills of the workers and the requirement of the job. Although jobs were available, there was a demand for a new kind of skill and qualification. So, persons with old skills did not get employment in the changed economic regime, and remain unemployed.

4.1.1.4 Frictional Unemployment

Frictional unemployment occurs when a person is out of one job and is searching for another for different reasons such as seeking a better job, being fired from a current job, or having voluntarily quit a current job. It generally requires some time before a person can get the next job. During this time he is frictionally unemployed.

4.1.1.5 Natural rate of unemployment

The sum total of frictional and structural unemployment is referred as the natural rate of unemployment.

4.1.1.6 Disguised Unemployment

The unemployment which is not visible is said to be disguised unemployment. It occurs when a person doesn't contribute anything to the output even when visibly working. This happens amongst family labor especially in agriculture who are engaged on land but are not contributing to the given level of output. Thus their marginal productivity is zero.

4.1.1.7 Underemployment

When a person is engaged in the economic activity but that fail to provide him fully in accordance to his qualification and efforts. Thus it is a situation in which a person is employed but not in the desired capacity whether in terms of compensation, hours, or level of skill and experience. While not technically unemployed the underemployed often compete for available jobs.

4.2 MEASUREMENT OF UNEMPLOYMENT

Unemployment rate is the percent of the labor force that is without work. It is calculated as below:

$$\text{Unemployment rate} = (\text{Unemployed Workers} / \text{Total labor force}) \times 100$$

Measurement of unemployment is a difficult task. In India, the most comprehensive and reliable data on employment and unemployment are compiled by the National Sample Survey Organization (NSSO). Based on different reference period (a year, a week, and each day of a week), NSSO provides four different measures of



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employment and unemployment. The following are some methods of measuring unemployment:

- (i) **Usual Principal Status Unemployment (UPS):** This is measured as the number of persons who remained unemployed for a major part of the year. The persons covered by the survey may be classified into those working and/or available for work in their principal activity, and those working and/or available for work in a subsidiary activity, that is, a sector other than their principal activity. Hence, within the usual status concept, the estimates are now derived on the usual principal status as well as the usual principal and subsidiary status basis. The usual status unemployment rate is a person rate and indicates chronic unemployment, because all those who are found usually unemployed in the reference year are counted as unemployed. This measure is more appropriate to those in search of regular employment, e.g., educated and skilled persons who may not accept casual work. This is also referred to as 'open unemployment'.
- (ii) **Usual Principal and Subsidiary Status Unemployment (UPSS):** Here person is considered unemployed, if besides UPS, those available but unable to find work on a subsidiary basis during a year.
- (iii) **Current Weekly Status Unemployment (CWS):** This refers to the number of persons who did not find even an hour of work during the survey week.
- (iv) **Current Daily Status Unemployment (CDS):** This refers to the number of persons who did not find work on a day, or on some days, during the survey week.

Rates of unemployment differ based on different concepts. The UPS and UPSS measure reflect only long term unemployment spells. The CWS measure captures shorter unemployment spells, but ignores unemployment for less than a week. The CDS measure is the most inclusive, capturing both open as well as partial unemployment. The unemployment rate based on different measures is given under the following table 4.1:

Table 4.1: Unemployment Rate (%)

Year	2004-05	2009-10	2010-11
UPSS	2.3	2.0	2.2
CWS	4.4	3.6	3.7
CDS	8.2	6.6	5.6

Source: NSSO Surveys, till 2014

It is clear from the above table that there is decline in the unemployment rate since 2004-05. UPSS has remained more or less same between 2004-05 to 2010-11 at marginally above 2 per cent. CWS declined from 4.4 per cent in 2004-05 to 3.6 in 2009-10 and almost remained same at 3.7 in 2010-11. CDS decreased continuously from 8.2 per cent in 2004-05 to 6.6 per cent in 2009-10 and 5.6 per cent in 2010-11

4.3 CAUSES OF UNEMPLOYMENT IN INDIA

4.3.1 Slow Economic Growth

During the planning period the trend rate of growth was considerably lower than the targeted rate. Therefore, jobs in adequate number were not created. Further, economic growth by itself does not solve the problem of unemployment. In the recent past there has been deceleration in the growth of employment in spite of the accelerated economic growth. This can be explained in terms of steady decline in the degree of response of employment to change in output in all the major sectors of economic activity except in construction. According to T.S. Papola, over a period of time, the output growth in agriculture and manufacturing sector has become more input and technology-intensive and less labor-intensive. Besides, the sectoral composition of growth is also an important determinant of unemployment. Excessive dependence on agriculture and slow growth of non-farm activities limit employment generation.

4.3.2 Increase in Labor force

There are two important factors that have caused an increase in the labor force which are as follows:

- (i) **Rapid Population Growth:** Rising population has led to the growth in the labor supply and without corresponding increase in the employment opportunities for the increasing labor force has aggravated the unemployment problem.
- (ii) **Social Factors:** Since Independence, education among women has changed their attitude toward employment. Many of them now compete with men for jobs in the labor market. The economy has however failed to respond to these challenges and the net result is a continuous increase in unemployment backlogs.

4.3.3 Rural-Urban Migration

The unemployment in urban area is mainly the result of substantial rural migration to urban areas. Rural areas have failed to provide subsistence living in agriculture



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and allied activities and so large scale migration is taking place to cities. However, economic development in cities has failed to create enough additional jobs for the new urban entrants to the labor market. Thus only some of the migrants are absorbed in productive activities and the rest join the reserve army of unemployed workers.

4.3.4 Inappropriate Technology

In India, though capital is a scarce factor, labor is available in abundant quantity; yet producers are increasingly substituting capital for labor. This policy results in larger unemployment. Despite the abundance of labor, capital intensive technology is adopted in India mainly because of rigid labor laws. It is quite difficult to follow easy hire and fire policy and so right sizing of manpower is difficult for the enterprises. It is difficult to reduce the number of labor-Force. Further, the factors like labor-unrest and lack of work-culture leads to the increased inefficiency of labor and thus provide incentives to follow labor-saving technology by organizations.

4.3.5 Defective Educational System

The present educational system has theoretical bias and has limited utility for productive purposes. It lacks the emphasis on the development of aptitude and technical qualifications required for various types of work among job seekers. This has created a mismatch between the need and availability of relevant skills and training, which results in unemployment, especially of youth and educated while shortage of technical and specialized personnel continues.

4.3.6 Lack of Infrastructure Development

Lack of investment and infrastructure development limits the growth and productive capacity of different sectors which leads to inadequate generation of employment opportunities in the economy.

4.3.7 Lack of employability

India faces poor health and nutrition situation among masses which reduces the capacity of person to be employable and it causes unemployment.



INTEXT QUESTION 4.1

1. What is unemployment rate? How is it measured in India?
2. What are the causes of increase in labor force in India?

4.4 POVERTY IN INDIA

In general, poverty can be defined as a situation when people are unable to satisfy the basic needs of life. The definition and methods of measuring poverty differs from country to country. The extent of poverty in India is measured by the number of people living below the **Poverty Line**.

4.4.1. Poverty Line

The **Poverty Line** defines a threshold income. Households earning below this threshold are considered poor. Different countries have different methods of defining the threshold income depending on local socio-economic needs. The Planning Commission releases the poverty estimates in India.

Poverty is measured based on consumer expenditure surveys of the National Sample Survey Organisation (NSSO). A poor household is defined as the one with an expenditure level below a specific poverty line.

Earlier, India used to define the poverty line based on a method defined by a task force in 1979. It was based on expenditure for buying food worth 2,400 calories in rural areas and 2,100 calories in urban areas. In 2009, the Suresh Tendulkar Committee defined the poverty line on the basis of monthly spending on food, education, health, electricity and transport.

The Planning Commission has updated the poverty lines and poverty ratios for the year 2009-10 as per the recommendations of the Tendulkar Committee. It has estimated the poverty lines at all India level as an MPCE (monthly per capita consumption expenditure) of ₹ 673 for rural areas and ₹ 860 for urban areas in 2009-10. So a person who spends ₹ 673 in rural areas and ₹ 860 in urban area per month is defined as living below the poverty line.

Based on these cut-offs, the percentage of people living below the poverty line in the country has declined from 37.2 per cent in 2004-5 to 29.8 per cent in 2009-10. Even in absolute terms, the number of poor people has fallen by 52.4 million during this period. Of this, 48.1 million are rural poor and 4.3 million are urban poor. Thus poverty has declined on an average by 1.5 percentage points per year between 2004-5 and 2009-10. The annual average rate of decline during the period 2004-5 to 2009-10 is twice the rate of decline during the period 1993-4 to 2004-5 (Table).

Table 4.2: Poverty Ratios (figures are in %)

Year	Rural	Urban	Total
1993-94	50.1	31	45.3
2004-05	41.8	25.7	37.2
2009-10	33	20.9	29.8

Source: Economic Survey 2013



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4.5 CAUSES OF POVERTY IN INDIA

4.5.1 Vicious Circle of Poverty:

It is said that “a country is poor because it is poor.” This idea has come down from Ragnar Nurkse who pinpointed the problem of the vicious circle of poverty. Low level of saving reduces the scope for investment; low level of investment yields low income and thus the circle of poverty goes on indefinitely.

4.5.2 Low Resources Endowment

A household is poor if the sum total of income earning assets which it commands, including land, capital and labor of various levels of skills, cannot provide an income above the poverty line. The poor mainly consists of unskilled labor, which typically does not command a high enough level of wage income.

4.5.3 Inequality in the Distribution of Income and Assets:

The distribution of income and assets also determine the level of income. The economic inequalities are the major cause of poverty in India. It means the benefits of the growth have been concentrated and have not “trickled down” sufficiently to ensure improved consumption among the lower income groups.

4.5.4 Lack of Access to Social Services

The lack of access to social services such as health and education compound the problems arising from inequality in the ownership of physical and human assets. These services directly affect household welfare. The poor typically get much less than a fair share of such services. This is partly because governments do not invest enough to ensure an adequate supply of these services and the limited supply is mainly availed by non-poor households. Further, the poor may not have adequate access for a variety of other reasons like lack access to information about the existence of such services, lack of knowledge and corruption.

4.5.5 Lack of access to Institutional Credit

The banks and other financial institutions are biased in the provision of loans to the poor for the fear of default in the repayment of loans. Further, the rules regarding collateral security, documentary evidences etc. present constraints for the poor to avail loan facility from banks. The inaccessibility to institutional credit may force poor to take credit from the landlord or other informal sources at a very high interest rate and which in turn may weaken their position in other areas, leading, for example, to the payment of abnormally high rental shares for land, or acceptance of abnormally low wages in various types of “bonded labour”

arrangements or selling their crop at a very low price. In some cases poor people cannot make themselves free from the clutches of moneylenders. Their poverty is further accentuated because of indebtedness. Such indebted families continue to remain under the poverty line for generations because of this debt-trap.

4.5.6 Price Rise

The rising prices have reduced the purchasing power of money and thus have reduced the real value of money income. The people belonging to low income group are compelled to reduce their consumption and thus move below the poverty line.

4.5.7 Lack of Productive Employment

The magnitude of poverty is directly linked to unemployment situation. The present employment conditions don't permit a reasonable level of living causing poverty. The lack of productive employment is mainly due to problems of infrastructure, inputs, credit, technology and marketing support. The gainful employment opportunities are lacking in the system.

4.5.8 Rapid Population Growth:

The faster population growth obviously means a slower growth in per capita incomes for any given rate of growth of gross domestic product (GDP), and therefore a slower rate of improvement in average living standards. Further the increased population growth increase consumption and reduces national savings and adversely affects the capital formation thereby limiting the growth in the national income.

4.5.9 Low Productivity in Agriculture

The level of productivity in agriculture is low due to subdivided and fragmented holdings, lack of capital, use of traditional methods of cultivation, illiteracy etc. This is the main cause of poverty in the rural India.

4.5.10 Social Causes

- (i) **Education:** Education is an agent of social change. Poverty is also said to be closely related to the levels of schooling and these two have a circular relationship. The earning power is affected by investment in individual's education and training. However, poor people do not have the funds for human capital investment and thus it limits their income.
- (ii) **Caste system:** Caste system in India has always been responsible for rural poverty. The subordination of the low caste people by the high caste people



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caused the poverty of the former. Due to rigid caste system, the low caste people could not participate in various economic activities and so remain poor.

- (iv) **Social customs:** The rural people generally spend a large percentage of annual earnings on social ceremonies like marriage, death feast etc. and borrow largely to meet these requirements. As a result, they remain in debt and poverty.

4.6 POVERTY ALLEVIATION AND EMPLOYMENT GENERATION PROGRAMMES IN INDIA

The government is following a focused approach through various flagship schemes in the areas of poverty alleviation and employment generation to achieve inclusive development.

4.6.1 Mahatma Gandhi National Rural Employment Guarantee Work (MGNREGA)

This flagship programme of the government aims at enhancing livelihood security of households in rural areas by providing at least one hundred days of guaranteed wage employment in a financial year to every household whose adult members volunteer to do unskilled manual work with the stipulation of one-third participation of women. The MGNREGA provides wage employment while also focusing on strengthening natural resource management through works that address causes of chronic poverty like drought, deforestation, and soil erosion and thus encourage sustainable development.

4.6.2 National Rural Livelihood Mission (NRLM)- Aajeevika

The Swarnjayanti Gram Swarozgar Yojana (SGSY)/ NRLM a self-employment programme implemented since April 1999 aims at lifting the assisted rural poor families (swarozgaris) above the poverty line by providing them income-generating assets through a mix of bank credit and government subsidy. The rural poor are organized into self-help groups (SHGs) and their capacities are built through training and skill development.

4.6.3 Swarna Jayanti Shahari Rozgar Yojana (SJSRY)

The SJSRY launched on 1 December 1997 aims at providing gainful employment to the urban unemployed and underemployed, by encouraging them to set up self-employment ventures or creating wage employment opportunities.



INTEXT QUESTIONS 4.2

1. Explain the concept of poverty line in India.
2. How does availability of institutional credit impact the level of poverty in India
3. What do you mean by vicious circle of poverty?



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4.7 INEQUALITY IN INDIA

India is a vibrant country with quite an impressive economic growth profile and as expected, improvement in economic growth and per capita income has translated, at least partly, into reduction in the level of poverty in the country. It is a fact that there has been a secular decline in the share of poor in the population. However, there exists a wide spread disparities in the levels of social-economic development between the different regions of the country. The huge differences in living standards as measured by per capita incomes, across the States of India range from 12000 rupees per head in Bihar to nearly 100,000 rupees per head in Goa. They are the product of history and past growth experience. There are also other related disparities in the levels of education, literacy, health, infrastructure, population growth, investment expenditure and the structure of regions. The regional disparity in the last decade shows that India has a vast array of richer and poorer regions with Goa being the richest region and Bihar the poorest. In 2010/11, Chandigarh was the richest, but Bihar remained the poorest. There are also substantial variations in the average annual growth rate over the period, ranging from an impressive 8.39 per cent in Chandigarh to a sluggish 2.71 per cent in Jammu & Kashmir. Further, during this decade, the top four richest regions (viz, Goa, Chandigarh, Delhi and Puducherry) have high initial levels of GDSP (Gross Domestic State Product) per head and very fast growth over the period as compared to the other regions.

4.8 CAUSES OF GROWING REGIONAL DISPARITIES IN INDIA

4.8.1. Historical Factors

Historically regional imbalance in India started from its British regime. British industrialist mostly preferred to concentrate their activities in two states like west Bengal and Maharashtra and more particularly to their metropolitan cities like Kolkata, Mumbai and Chennai. They concentrated all their industries in and around these cities neglecting the rest of the country to remain backward.

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4.8.2 Geographical factors

The difficult terrain surrounded by hills rivers and dense forest, leads to increase in the cost of administration, cost of development projects, besides making mobilization of resources partially difficult. Adverse climate and floods are also responsible factors for poor rate of economic development of different regions of the country as reflected by low agricultural productivity and lack of industrialization. These factors have resulted in uneven growth of different regions of India.

4.8.3 Infrastructure

The states with well-developed basic infrastructure such as power, water, roads and airport attracts the big investment projects and so has witnessed a very high growth rate. The poorer states on other hand lacking the basic infrastructure fails to attract private investments. This has accentuated the problem of inequality in the distribution of income and concentration of economic power.

4.8.4 Decline in Public Investment

In the new economic policy the Government has been continuously limiting its role with respect to participation in economic activity and has given more space to the private sector. There has been a steady decline in the public investment. This has adversely affected the poorer states. Since the public investment is a major contributor to growth of these States through bulk investments on irrigation, power and social sector projects decline in the same has adversely affected the process of development of many regions.



INTEXT QUESTIONS 4.3

1. The percentage of labour force that is unemployed is the:
 - (a) employment rate
 - (b) Unemployment Population Ratio.
 - (c) Unemployment rate.
 - (d) Labour force rate.
2. The labour force can be defined as:
 - (a) Those of workers who are seeking work and are available for work at current wage rate.
 - (b) Anyone who is working or actively seeking work.
 - (c) The population between school-leaving age and retirement age.
 - (d) Those who could claim benefit if they were to become unemployed.
3. Cyclical Unemployment is the:

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- (a) Unemployment that results when people become discouraged about their chances of finding a job so that they stop looking for work
 - (b) Unemployment that occurs during recessions and depressions.
 - (c) portion of unemployment that is due to the normal working of the labour market.
 - (d) portion of unemployment that is due to changes in the structure of the economy that results in a significant loss of jobs in certain industries.
4. Which among the following is the method to estimate the poverty line in India?
- (a) Investment method
 - (b) Capital method
 - (c) Human method
 - (d) Income method.
5. Who conducts the periodical sample survey for estimating the poverty line in India?
- (a) National Survey Organisation
 - (b) National Sample Survey Organisation
 - (c) Sample Survey Organisation
 - (d) None of the above.
6. For how many days MNREGA provides employment?
- (a) 70
 - (b) 80
 - (c) 90
 - (d) 100



WHAT YOU HAVE LEARNT

- An able bodied person who is willing to work but he is not getting any job is called an unemployed person.
- Cyclical unemployment occurs during the time of recession where there is fall in aggregate demand in the economy.
- Seasonal unemployment is mostly found in agriculture sector, tourism etc.
- Structural unemployment is caused due to lack of adjustment of the labour force with the change in demand.
- Frictional unemployment is created when a person searches for a better job or losses his current job.
- Disguised unemployment is a situation where marginal product of labour is zero.

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- Underemployment is a situation where a person does not receive the remuneration he/she deserves from his/her present occupation and also his/her capabilities are not fully used.
- Unemployment rate is defined as the percent of the labour force that is without work.
- There are following measures of unemployment in India- Usual Principal Status (UPS), Usual Principal and Subsidiary Status Unemployment (UPSS), Current Weekly Status (CWS) and Current Daily Status (CDS).
- UPS refers to a person who could not find a job for major part of the year.
- UPSS refers to a person who could not find a job for even on a subsidiary basis for a major part of the year.
- CWS refers to a person who could not get a job even for an hour in a week.
- CDS refers to a person who could not find a job in the reference day.
- Causes of unemployment in India include: Slow Economic Growth, Rapid Population Growth, Rural-Urban Migration, Backward Technology, Lack of Education and Lack of Infrastructure.
- Poverty line is defined as the level of income or expenditure below which a person cannot sustain himself/herself at the on going market price. Poverty Line has changed over time in India.
- Causes of Poverty in India include: Lack of Resources, Income Inequality, Lack of Access to Social Services, Lack of Access to Institutional Credit, Unemployment, Inflation etc.
- Some of the antipoverty programmes of the government include: MGNREGA, NRLM, SJSRY,
- Inequality in income distribution and regional inequality are major threat to Indian economic development.



TERMINAL EXERCISE

1. What are the causes of unemployment in India?
2. Discuss the causes of poverty in India.
3. Briefly explain various poverty alleviation programmes implemented by Government of India in recent years.
4. Explain the dimension of regional inequality in India.
5. What are causes of regional inequality in India?



ANSWER TO INTEXT QUESTIONS

4.1

1. See section 4.2
2. See section 4.3.2

4.2

1. Poverty line (see section 4.4.1)
2. See sec 4.5.4
3. See section 4.5.1

4.3

1. (c)
2. (a)
3. (b)
4. (d)
5. (b)
6. (d)



Notes