



From the Editorials - Unemployment Crisis in India

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Unemployment Crisis in India

What is the issue?

Leaked data from the National Sample Survey Office's (NSSO) latest labour force survey suggests that unemployment rose to an all-time high of 6.1% last year. This is, no doubt, a worrying trend.



Rise in Unemployment:

- The rise in unemployment can largely be explained by the fact that more young people are obtaining an education.
- With education comes the expectation of a 'better' job. Those who can afford education also tend to be in a position to wait for a job that meets their requirements.
- Those who are not as financially fortunate must find the means to make a living, however poor in quality the work may be.
- The data show that **unemployment is higher among the educated**, and lower among those with less financial means and education.
- The need to work to make ends meet also fuels India's large informal economy. **Over 90% of the employed (farm and non-farm) are informal workers.**
- In the non-farm sector, 66% of those employed are informal workers. The informal economy is characterised by low levels of productivity and low wages because many of these workers are underemployed.

Underemployment:

- The **urgent crisis confronting the economy, then, is underemployment.**
- Underemployment occurs when workers are unable to find employment that makes use of their qualifications and skills. For instance, an engineer might be working in a mechanic shop.
- Underemployment and/or refers to the **sharing of low-productivity work**, as is common in agriculture, for example. Or picture a 16-year-old who spends his mornings selling just enough coconuts to make the bare minimum to survive. And

these are just examples of visible underemployment.

- **Persistent underemployment also contributes to the decline in labour force participation rates.**
- As people grow frustrated with their inability to find a good job, they may stop looking for work and drop out of the labour force altogether.
- Data from the leaked NSSO labour force survey suggest that the **labour force participation rate declined to 49.8% in 2017-18 from 55.9% in 2011-12.**

Problems of unemployment:

- If India cannot provide employment to its growing working-age population, it does not just miss a chance to become a prosperous country, but also risks becoming an unmanageable or unruly country. Unemployed youth, beyond a threshold, can lose hope of a job and can easily stray into becoming **unsocial elements**.
- A bigger problem is that those who do get jobs and prosper do not appreciate the plight of those who do not. It is mistakenly believed that those who do not get good jobs are not worthy of getting them.
- The blame is placed at the door of the unemployed as if it is entirely their problem. The **macro-economic and social dimension** of the problem is not appreciated in India.
- Statistics give us clues of the brewing problem and its insidious nature. First, we are in the midst of a serious **investments deficit**. CMIE's CapEx database demonstrates the persistent fall in new investment proposals since 2011-12. New investment proposals had peaked at ₹25 trillion in 2010-11. In 2017-18, these were down to ₹11 trillion, and in 2018-19, these are unlikely to cross ₹10 trillion.
- The impact of this fall in investments is visible in shrinking jobs. In a point-to-point comparison, **in 2018, the number of persons employed declined by 11 million**. An estimated 408 million people were employed in December 2017. This fell to 397 million in December 2018. The average employment in 2017 was 406.5 million. This fell to an average of 402.1 million in 2018. This shows a smaller fall of 4.5 million. Either way, we see a very substantial fall in employment. One (11 million) is only much worse than a fairly bad fall of 4.5 million, or 10%.
- Both underemployment and this form of discouragement are a significant loss of productive potential.
- This is particularly troubling when it pertains to India's large and growing youth population.
- Pathways to productive and high-quality employment are essential to deliver better living standards to citizens, but also for sustainable and inclusive economic growth.

Labour participation rate:

This fall in jobs is not translating into a proportionate rise in unemployment. But it is showing up in a fall in the labour participation rate.

- **A rise in unemployment is bad, but a fall in the labour participation rate is worse. The former reflects a shortage of jobs compared to the number of people looking for jobs. The latter reflects a fall in the number of people looking for jobs.**
- **When we juxtapose this against falling jobs, we see a glimpse of the hopelessness of people who should be looking for jobs. Our real crisis is in the nature of the government's response to the situation.**
- **When the establishment works hard to rubbish sound statistical practices and results of large sample household surveys and instead uses back-of-the-envelope calculations to measure employment, we are headed towards a bigger crisis than the jobs crisis.**

Arguments against the survey data:

- The furore around the unemployment issue is ill-founded. Most of the analysis is based on incomplete representations of the labour market.
- The recent surveys that profess spiralling unemployment are either unverifiable or heavily skewed by sampling biases. T
- his narrative raises questions on the political motivations behind these surveys that may intend to change the perception of India's growth trajectory, nationally and globally.
- CMIE claimed that the total working population in India declined by 11 million (1.1 crore) in 2018. These preliminary estimates seem opportunistically quoted by the think tank two months ahead of schedule.
- CMIE has considered a minuscule sample of 1,40,000 respondents for a nation of more than 1.3 billion citizens. With regards to the leaked excerpts of the National Sample Survey Office survey, the public has been unduly kept in the dark about the methodology used to compute the claimed 6.1% unemployment rate.
- Estimating a macro profile of employment for the country based on a survey of even 2 million participants is not statistically valid without a study of the various components of job creation.
- Such surveys have biased weights which have recently been contradicted by more concrete research. These surveys give higher weight to States with large populations but where less formal jobs are being created. There is a higher supply of formal jobs in Maharashtra and in south India than in States like Uttar Pradesh and Bihar.

- Another trend which was noticed was that jobs were being created in big cities. However, cities carry less weight in the aforementioned surveys.
- A company called BetterPlace Safety Solutions, which has one of the deepest databases of the formal sector workforce in India, had recently released these revelatory migration trends. Until such biases are removed using actual data, we must reserve judgment.

Creation of formal jobs:

- India has been creating formal jobs in large numbers. Further, deliberations based on other proxy databases like vehicle sales, the annual reports of the IT department, and MUDRA loan disbursements help ascertain jobs in large job-creating markets like transport, the professional sector, and small-scale entrepreneurship, respectively.
- It has been estimated that India requires around 1.5 crore jobs a year. This is because it has got about 2.5 crore people attaining the age of 21 every year. And the estimate that 40% of this population may not want formal jobs, as they choose agriculture or become homemakers after marriage.
- The social security databases point to around 70 lakh jobs created annually (in companies with over 20 employees), the transport sector creates around 30-35 lakh jobs, and the professional sector creates around 6-10 lakh jobs. That's 1.1 crore jobs from just three sources.
- The rest (30-40 lakh jobs) is contributed by people starting their own ventures. India has not improved on its Ease of Doing Business ranking for nothing, and this sector is expected to generate more employment with support from initiatives like Make in India.

What needs to be done: Three-Pronged strategy.

- First, we must improve the quality of jobs by improving productivity in agriculture and in enterprises.
- Second, we must align education, technical and vocational education and training to market demand.
- Third, we must make enduring and long-term investments in human capital through good-quality education, skills, and on-the-job training, as well as in basic social protection.