

Problem of Unemployment and Growth

By

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Nature of Unemployment in Underdeveloped Countries

Unemployment is a situation characterised by the existence of those able-bodied persons who are willing to work but have to do without a job that may yield them some regular income. This type of situation obtains both in a developed and a developing economy. However, the nature of this situation as it obtains in a developing economy differs from the one that obtains in a developed economy; it will help us understand, in a right perspective, the nature of the problem as it obtains in a developing economy.

Unemployment in a developed economy. The classical economists had discounted the very possibility of the existence of unemployment in an economy, J.M. Keynes refuted the classical claim of full employment. Keynes formulated a new theory of employment according to which the level of employment in an economy is determined by the level of effective demand which has been defined as that equilibrium situation where the expected receipts from a given level of employment equal the minimum receipts that all the employers taken together in an economy must get. This equilibrium need not be established at the point of full employment. Thus, a state of unemployment is consistent with the equilibrium level of employment.

In short, unemployment in a developed economy is caused by a deficiency of effective demand, and hence can easily be diagnosed and treated.

Unemployment in an underdeveloped economy. The nature of unemployment obtaining in an underdeveloped economy differs fundamentally from its counterpart in a developed economy. In an underdeveloped economy, unemployment is caused not by a deficiency of effective demand; it is rather the result of a lack of complementary factors, like

capital. "In an underdeveloped region there is always under-employment of the factors of production within the limits of known techniques. Such underemployment, however, does not necessarily spring from a faulty combination of existing factors but usually from a scarcity of capital. One factor—labour—is squandered because another—capital—is deficient".

In an underdeveloped country, unemployment takes three forms viz.,

- (i) open unemployment,
- (ii) underemployment, and
- (iii) disguised unemployment

(i) **Open unemployment.** Open unemployment, in an under-developed economy, can be defined as a situation wherein a large labour force does not get work opportunities that may yield them regular income. This type of unemployment is the result of lack of complementary resources, specially capital. In such economies, the rate of capital accumulation lags behind the rate of population growth. The size of labour force increases, therefore, at a faster rate than is warranted by the rate of capital accumulation. A large reserve army of labour comes to exist which does not find any employment. Mrs. Joan Robinson calls this type of unemployment "Marxian unemployment". In her view Marxian unemployment is what "exists in the backward, over-populated countries of the East" as well as in "war-shattered economies where unemployment results from the mere lack of equipment and material to work with." Apparently, this type of unemployment results from a structural disequilibrium in the economy, and hence can be identified as 'structural unemployment'.

(ii) **Underemployment.** In addition to the open unemployment, underemployment of the labour force also obtains in an under-developed economy. Underemployment can be defined in two different ways: (a) a situation in which a person does not get the type of work he is capable of doing; he may possess abilities and expertise to do a type of work that could yield a larger income, but he may be denied this opportunity due to lack of suitable jobs; (b) a situation in which a person does not get sufficient work to absorb him for the total length of the working hours of a day. This second type can also be identified as a situation in which a person gets some work during some days, weeks or months of a year, but not regularly throughout the year. This type of unemployment is also known as seasonal unemployment, and is caused largely by natural circumstances. Agriculture and a few agro-based industries offer employment not throughout the year but at certain intervals fixed by the timing and maturation of crops. Hence it is not unusual to find that in the peak period of sowing or harvesting there is scarcity of labour in the villages whereas in normal times there is a surplus. The disparity between the off-season demand for labour and the peak season demand for labour has been estimated to be not less than 75 per cent in many cases. The incidence of seasonal unemployment tends to decrease with the growth of agricultural prac-

practices like double-cropping, multiple-cropping etc., in the wake of new agricultural technology. But even then, the burden of seasonal unemployment continues to be very heavy.

However, in regard to seasonal unemployment, it may be noted that seasonality does not mean that there are well marked seasons during which there is a continuous and full-time employment and season in which there is no unemployment at all. There are no such clear lines of demarcation. Even during the off-season a part of the labour forces may find wage-employment; similarly, during the peak season quite a few labourers may not find wage employment. The essential idea is that a major part of earning of rural households is derived during the season. During the off-season they may be earning little or no income. And since the off-season stretches quite long, specially in those areas where single-cropping is practised, the gross annual level of income of rural households will tend to be low.

(iii) **Disguised unemployment.** A major characteristic of under-developed economics is the existence of disguised unemployment. The term disguised unemployment was originally used to mean the cyclical transfer of men from the more productive to the less productive jobs during depression. Mrs. Joan Robinson puts it as: "A decline in demand for the product of the general run of industries leads to a diversion of labour from occupations in which productivity is higher to those where it is lower. The cause of this diversion, a decline in effective demand, is exactly the same as the cause of unemployment in the ordinary sense and it is natural to describe the adoption of inferior occupations by dismissed workers as disguised unemployment." This definition of disguised unemployment relates it to a cyclical type of unemployment; this definition is more suited to industrially developed countries which may be hit by cyclical unemployment. In the context of agriculturally underdeveloped economies, disguised unemployment is to be treated as a part of structural unemployment.

Cyclical unemployment is a temporary phenomenon which vanishes when the effective demand picks up with the revival of economic activity; structural unemployment, on the other hand, is a relatively permanent phenomenon which is associated with the gross inadequacy of productive capacity to create enough work for all those able and willing to work. It does not pass off on its own with the lapse of time.

Disguised unemployment in underdeveloped economies is a part of structural unemployment. Disguised unemployment refers to unemployment which is 'hidden', i.e., not open for any one to see. A number of persons who may apparently be employed may not in fact be contributing anything to production. For example, in a family farm, a family working with its own labour supplied by four members of the family may be in a position to raise 100 quintals of paddy on a hectare of land. Suppose two more members of the family also join the other family members to work on the farm. The six units of labour working on the given unit of land and capital may not be in a position to produce more than 100 quintals of paddy

on a hectare land. What has happened is that two more units of labour have found for themselves work on the farm that was not there. Apparently, work has been found by rendering other four members underemployed. Thus, these two persons who are apparently employed are in fact unemployed, their unemployment is concealed, it is not open.

In more technical terms, the disguised unemployed are those who are so numerous, relative to the resources, that the marginal physical productivity of that labour, over a wide range, is zero, if not negative. This means that with unchanged techniques of production and without any significant reorganisation a large part of labour engaged in agriculture can be withdrawn without causing any diminution in output.

The term 'disguised unemployment' is not applied to wage labour since presumably the employer will not employ a labourer unless his labour increases the total product. Thus, disguised unemployment is a situation which is found exclusively in the agricultural sector, where family-labour and non-wage employment predominate.

Disguised unemployment of the family farms may be caused by the fact that there may be in existence inadequate resources to provide gainful alternative employment opportunities to all the members of the family. All the members of the family, hence, tend to cluster around the piece of land which all of them may be collectively owning. All of them continue to work, each one doing less than the normal load of work. Therefore, if anyone of them leaves, it does not affect the productivity of land at all; it only means that the remaining members get more work to do.

Disguised unemployment can be removed only by increasing the productive capacity of the economy that may create enough work for all those able and willing to work. In other words, disguised unemployment requires for its correction structural changes in the economy. How these changes can be brought about can be studied only in the light of the causes that give rise to structural unemployment.

2. Problem of Unemployment in India

Nature of Problem

The Indian experience of the relation between employment and development is vastly different from that of the developed countries. The most significant feature of the difference is the negligible change that has taken place in the occupational structure of the country with agriculture and allied occupations practically occupying the same position in 1971 as they did in 1931 or even in 1911. The other distinguishing feature of the employment pattern is the vast proportion of labour force that is self-employed. The percentage of wage-earners in the labour force comes to only about 39 per cent as compared to 86 per cent in the case of the

industrialised countries. More than 60 percent of India's labour force is thus technically outside the category of wage-earners and naturally therefore the concept of unemployment as used in the developed countries or what we may call 'open unemployment' does not apply to any of their number. The absence of open unemployment does not mean, however, that those who do not come under this category are in a satisfactory economic position. In fact, the economic position of large number of them in rural areas is worse than that of the openly unemployed. In other words, while treating the problem of unemployment due consideration has to be given to the phenomenon in rural India and that in urban India. We shall call these respective situations as rural unemployment or urban unemployment.

A. Rural Unemployment

In the rural economy, both unemployment and underemployment exist side by side and the distinction between them is by no means sharp. In the rural areas, increasing population implies an increasing pressure on land. This pressure on land or agriculture has resulted in an increase in the number of agriculturists, and this has largely contributed to the problem of unutilised labour or disguised unemployment in the agricultural sector. A large labour force accumulates around primary occupations and the general inelasticity of occupational structure also prevents any large movement away from these in periods of slack demand. This leads to seasonal unemployment also. The incidence of seasonal unemployment may vary from region to region and even within the same region over different seasons depending on climate, the cropping pattern and the social-economic factors, and affect different sections of the rural population differently, due to the periodic entry into and withdrawal from the labour force. The problem of seasonal unemployment is closely associated with the problem of underemployment of manpower. Even if the unemployed labourers are absorbed in subsidiary occupations during a particular season, they still remain unemployed. A reserve army of the labour force is thus created. In short, rural unemployment is characterised more by the existence of underemployment in the form of disguised unemployment and seasonal unemployment rather than open unemployment that obtains in the urban areas.

B. Urban Unemployment

Urban unemployment is largely the offshoot of rural unemployment. With the growing pauperisation of the peasantry in the wake of introduction of the capitalist system of farming, a mass exodus of population from rural areas to urban areas keeps on taking place. But this migration from rural to urban areas does not reflect the "pull" of job opportunities in the cities, but rather the "push" of abject poverty and lack of opportunities in the villages. This type of migration swells the size of labour force in urban areas, and in turn adds to the number of the unemployed army of labour.

One of the special features of urban unemployment in India is that the rate of unemployment is higher among the educated than among the uneducated people. This is perhaps due to the fact that tertiary occupations do not grow to that extent to which the people are being educated in the urban areas. As a result the unemployment problem among the educated middle class is acute.

To sum up, the rural unemployment scene in India is largely characterised by the existence of underemployment, seasonal unemployment and disguised unemployment. Urban unemployment is characterised by the existence of both open unemployment, which in turn is an off shoot of rural unemployment itself, and the educated unemployment.

Extent and Magnitude of Unemployment

The genesis of the problem of unemployment can be rightly understood only in the light of its extent and magnitude.

At the time of the formulation of the First Plan (1951-56), there were hardly any statistical data on employment and unemployment except the employment exchange statistics limited to a new towns and major cities. No estimates of unemployment in the economy as a whole were therefore attempted in the First Plan. No estimates were offered either of the growth of the labour force during the plan period. The Second Plan furnished fairly detailed estimates of unemployment for the first time. The backlog of unemployment at the beginning of the First Plan was put at 3.3 million to which were added 9.0 million new entrants during this period. The Plan provided additional employment to 7.0 million, thus leaving a backlog of 5.3 million at the beginning of the Second Plan. In the subsequent plans, the backlog of unemployment has been continuously increasing, since the new jobs created during each plan period invariably fell short of the new entrants to the labour force. At the beginning of 1978, the backlog of unemployment had risen to 20.6 million.

Planning Commission's Estimates of Unemployment

The Planning Commission has classified unemployment in terms of three categories, based on the time pattern of worklessness. Based on the methodology of the 27th round of the National Sample Survey, the estimates relate to the following three types:

1. Chronic unemployment (measured in number of persons),
2. Weekly unemployment (measured in number of persons), and
3. Unemployment and underemployment (measured in person-days or person-years).

The Sixth Plan notes that chronic unemployment is a very small part of the Indian unemployment problem, because very few persons remain unemployed throughout the year. Millions of them find some work for some weeks or some month and are forced into idleness for the rest of the year. Therefore, it is necessary to have some measures of irregular unemployment. One of these is "weekly unemployment"—the number of persons, who did not find even an hour of work during the survey week, and are searching or are available for work. The number of such persons was 10.1 million in 1973 and is estimated to be 11.2 million in 1978.

The Plan further notes that even this estimate of weekly unemployment is unsatisfactory because millions of workers do not get regular work even for a whole week. They get work on some days and look for work on other days even during the same week. Therefore, unemployed days rather than unemployed persons should be counted. This person-day unemployment was 130 million days per week in 1973, which is equivalent to 18.6 million persons being unemployed on a typical day. Again assuming the person-day unemployment rate to be at least as much as in 1973, unemployment in March 1978 should be 20.6 million person-years: 16.5 million in the rural areas and 4.1 million in the urban areas. These are clearly the most inclusive and significant indicators of the magnitude of unemployment in 1978.

The unemployment rate in 1972-73 measured as the ratio of person-years unemployed to person-years available turns out to be 8.2 per cent in the rural areas and 9.0 per cent in the urban areas. Comparable rural rates, including open unemployment and underemployment are not available for other countries. But in country studies of the International Labour Organisation for the Phillipines, Colombia and Sudan, rural rates of open unemployment of the order of 4.0, 2.0 and 6.7 per cent have been reported. These rates are lower than the rural rates in India because they exclude underemployment. The urban rate in India is, however, comparable to the rates reported in other countries. The range of urban unemployment rate of Asian countries in the late 'sixties was 3.5 to 14.8 per cent. The Indian urban rate (9 per cent) is within this range. But the fact that some rates are internationally comparable is not very significant because in India the absolute volume of unemployment at present (20.6 million years) is staggeringly large, and larger than in any other country in the world for which unemployment statistics are available. This fact presents the greatest challenge to Indian planning in its next phase.

Cause of Unemployment

Unemployment results when the rate of growth of labour force is more than the rate at which new jobs are created. The rate of growth of labour force, in turn, is a function of the rate of growth of population. Apparently, when we say that the number of the unemployed in the economy has been increasing we mean that new jobs have only been created at

an inadequate rate, so that it has not been possible to absorb in gainful employment the increasing labour force.

First, in an economy in which the pressure of population on land is already very high, the responsibility for creating new jobs is largely to be borne and shared by secondary and tertiary sectors of the economy. If these sectors fail to discharge this responsibility it either leads to more unemployment or promote disguised unemployment in the rural agrarian sector. This is precisely what has been happening in India.

It is historically a unique fact that over the last six decennial censuses, inspite of impressive development of the large-scale manufacturing and infrastructure sectors, the share of agriculture in the work-force has not diminished at all. The share of mining and manufacturing in the work-force has struck around 9 to 10 per cent and the share of the tertiary sector around 16-18 per cent for five decades. The inference is clear; employment growth in these sectors has been insufficient to absorb an increasing proportion of the labour force. Investment and output have grown at a high rate but the production-mix and the technology mix have been so capital intensive that employment has not grown pari-passu. Between 1961 and 1976, for example in the modern factory sector, investment increased by 139 per cent and output by 161 percent but employment increased by only 71 per cent. Therefore, unemployment per unit of gross out put decreased by 34 per cent and employment per unit of capital declined by 28 per cent.

Further, the annual average growth in recorded employment in organised sector (all public sector units and private units with more than 10 workers) in recent years has been only about 5,50,000. This means that recorded employment in the organised sector absorb first about 11 per cent of the current annual increase in the labour force, the remaining 89 per cent of the annual increase in the labour force of about 4.45 million is forced to hang on for some livelihood, either on agriculture or some other small-units activity (in units with less than 10 workers).

The rate of labour absorption in the whole organised sector is so small that even if this absorption is miraculously doubled by a phenomenal growth in large scale industry and public services it would still employ not more than 20 per cent of the annual increase in our labour force. Therefore, the only hope of absorbing most of the annual increase in our labour force lies in making employment in small units fuller and more productive, and in choosing a product-mix and technology-mix, even in the organised sector, which absorbs substantially more labour per unit of output and investment.

Secondly, the growth of the agricultural sector itself has been slow and tardy. It has not responded to the needs of a growing economy: productivity in agriculture continues to be one of the lowest. Consequently, agriculture has provided only low productive

employment and has further accentuated the problem of seasonal and disguised unemployment which has extended itself further to spread out in the form of urban unemployment. Productivity in agriculture has suffered on a number of counts, more important among which are various institutional and technological constraint. Land reforms in India have been slow. Despite legislative measures the insecurity of tenure still exists, and there is also a lack of balance between the owner and tiller of the soil. The new class of absentee landlords has emerged in the name of progressive farmers who on continue to reap immense advantages for the reason that there is no tax agricultural income. This has created a situation where landless agricultural workers have become victims of circumstances. Similarly, the available facilities relating to marketing and finance have been largely made use of by rich farmers only thereby hardly leading to any meaningful improvement in the economic condition of the small farmres. Among the technological constraints on agricultural productivity may be mentioned of the non-availability of crucial inputs like HYV seeds, fertilisers, pesticides and water, etc. Because of these different reasons it has not been possible to exploit fully the employment potential of the agricultural sector.

Thirdly the educational system in the country too has failed to respond to the existing inter-generational escape. After remaining at schools and colleges for a number of years men and women come out in large numbers, having gained neither occupational or vocational training nor functional literacy from which all future skilled, educated, professional, and managerial manpower is drawn. The system as such has rather failed to deliver the goods in the manner in which it could. We are still carrying on our education, by and large, on the old liberal pattern and without relating it to our growing developmental needs. Therefore, most young men and women naturally frown at the educational system which hae led them no where.

Finally, quite a few snags in our technique of planning can be indentified that have worked as constraints on employment expansion. One, efforts to lay sufficient infrastructure in the country for a balanced economic development have been lacking. Two, the plans could not halt the drift of the rural population into cities by making rural areas more attractive and congenial by enabling them to earn a better living off the land and encouraging the development of 'growth centres' around villages. Three, the plans could not encourage the use of labour intensive techniques of agriculture and industrial production, as also to mobilise the energies and enthusiams of young men and women by giving them a role to play, and a livelihood to earn, in the process of economic development. Four, the plans have failed to put a due emphasis on schemes of irrigation, waste land reclamation, soil conservation, and development of dairies, fisheries and poultry farming, etc., so as to generate employment avenues for various categories of skilled, semi-skilled and unskilled workers. Last, the plans also have not done well in the spheres of flood control, drainage, anti-water logging, rural electrification and other construction activities which, in turn, could have provided extensive employment opportunities to all the categories of workers including skilled and unskilled personnel.

Suggested Remedies to Unemployment Problem

The unemployment problem in India has different aspects to it. Therefore, it is necessary to treat the different facets of this problem in different ways. We need take some steps that will help solve the problem of urban unemployment, other steps that will help solve the problem of rural unemployment and still others that will have an impact on both the urban and the rural unemployment.

I. Remedies of Urban Unemployment

Following V.K.R.V. Rao, we can suggest the following steps to solve the problem of open unemployment which is largely an urban problem:

(a) Reform of the educational system to make it vocational at the school stage, give it a vocational bias at the undergraduate stage, and restrict admissions to really highly qualified persons at the postgraduate and research stages.

(b) Deliberate promotion of low capital intensity in industrial production except in areas where technological considerations make it impossible to avoid high capital intensity. The tragedy of the Indian situation during the three decades of planning has been a wilful or perhaps thoughtless neglect of this principle of employment promotion. The Indian industrial policy has really been a major instrument of high capital intensity in our industrialisation by the fiscal incentives offered for the use of capital, such as development rebates, double depreciation allowance and tax holidays, cheap electricity and other public facilities, and monetary incentives such as bank credit and governmental finance for large industrial enterprises. Capital intensity has also been encouraged by the artificial cheapening of imported capital equipment and spare parts for capital-intensive industries by over valuation of the Indian currency in foreign exchange and making supplies of foreign exchange available to capital intensive industries at these cheap rates. No fiscal or other incentives have been given for reduction in capital intensity or large employment of labour in any of the industries that go in for the application of modern science and technology. Fiscal incentives and technological facilities will have, therefore, to be provided for encouraging low capital-intensive methods of production that will still be modern and viable in costs. Considerations may also be given to using differential interest rates for discouraging high capital-intensive projects and encouraging low capital-intensive ones

(c) The vast infrastructure in research and development that we have built up in the public sector is now not being used for the promotion of intermediate technology and low capital-intensive choice of techniques. The present policy must be changed and deliberate attempts should be made to identify and develop techniques of production that can be undertaken with low capitalintensity.

(d) In planning investment, whether in the private or public sector, long gestation periods should be avoided except where they are technologically inescapable and deliberate attempt made to promote investments that involve a quick turnover of capital and thus make for larger and more continuous employment with a given volume of capital.

(e) In order to diminish the concentration of unemployment in the metropolitan centres, concrete action will have to be taken to promote decentralisation and dispersal of industrial activity. Mere policy declarations will not do: they have to be accompanied by follow-up action and a continuous watch maintained on progress in implementation.

(f) The new policy directives given to the nationalised banks to promote small industries and encourage self-employment by engineers and other technicians should be vigorously followed up in actual implementation.

II. Remedies to Rural Unemployment

In regard to the larger problem of disguised unemployment, under-employment and low productivity employment in the rural areas and the mass poverty resulting therefrom economists are unanimous in their view that "there is no other remedy than a massive programme of investment in rural development and massive injections of science and technology into the methods of production followed in rural areas in their agricultural as well as non-agricultural activities." It is believed that the "increase in production per-acre and increase in cropping-intensity will together not only increase agricultural income but also rural employment not only in agriculture but also in non-agricultural activities through the multiplier effect." Thus rural population to contribute to increase in total rural production and to share the increased income arising therefrom. It also implies that action will have to be taken to bring about a diversification in economic activity in rural areas by promoting, processing and manufacturing activity and developing various social services such as education, health and housing. All this is possible only through a massive increase in investment in rural areas and some diversion of public investment from urban to rural areas.

The main measures for rural development can be listed as follows :

(i) Local capital construction projects, particularly projects conducive to a quick increase in agricultural production, such as small and medium irrigation and drainage works, the construction of storage facilities and feeder roads and the development of local transport;

(ii) Land development and settlement;

(iii) More labour-intensive methods of cultivation, expansion of animal husbandry and the diversification of agricultural production;

(iv) The development of other productive activities, such as forestry and fishing;

(v) The promotion of rural social services such as education, housing and health and service

(vi) The development of viable small-scale industries and handicrafts in rural areas, such as the local processing of agricultural products and the manufacture of simple consumer and producer goods needed in the areas.

As already noted, development by itself may not bring about employment. Some measures will have to be taken to increase the employment potential of development. This will require a frontal attack on the low productivity and the low income status of large sections of the rural population like the marginal farmers and small farmers. This goal can be achieved (a) by land reforms with ceilings on holdings and redistribution of the resulting surplus in such a manner as to increase the number of owner cultivated holdings, and (b) by paying special and differential attention to the needs of marginal and small farmers in terms of availability of credit, lower rates of interest, and facilities for obtaining easily technically required agricultural inputs.

For some time to come there will be no escape from a large migration of rural labour to urban areas in search of work, but concerted efforts need be made to find variable and year-round employment in the rural areas themselves by an appropriate policy of rural industrialisation.

III. Other Measures

Employment opportunities both in the rural and urban areas can also be promoted by a large national programme of public works for the creation of a national network of infrastructural facilities especially in terms of transport and communications that can widen the Indian market, facilitate mobility of goods and peoples, and create opportunities for new as well as increased economic activity in both urban and rural areas. This type of programme may cause inflationary consequences in the short run. To offset these consequences, simultaneous attempts would be made to increase the supply of basic wage-goods and services that will enable the economy to meet the pressure of the increased purchasing power resulting from the public works programmes.

Finally, and to top it all, we may mention that we would be fighting a losing battle unless efforts are made, along with efforts to create new employment opportunities, to check the demand for new jobs. This would require the adoption of an affective and a meaningful population control policy. As long as the rate of population growth does not slow down so that it enables new jobs to be created at a faster rate than the rate at which new entrants join the labour force, all our efforts may prove self-defeating.