

# Periodic Research

## The Employment Problem in India: Its Nature, Causes and Possible Solutions

### Abstract

The development policy of India has always emphasized on employment generation. The attention and importance that it has received varied during different Five Year Plans. When India embarked on a strategy of industrialization-based development in 1950's, employment was not perceived to be a major issue in so far as a relatively faster growth of economy as envisaged in the consecutive Five Year Plans was expected to generate enough employment, particularly in industry, to take care of a small backlog of unemployment at the time and increase in labour force that was expected to be relatively modest. It was assumed that maintaining a regular supply of workforce to the ever-expanding industrial sector would, in itself, be a big challenge. Public sector, which was considered as a "model employer", was promoted continuously for over four decades.

But despite these efforts, growth of employment emerged as an important concern in development planning around the middle of 1970's, when it realized that economic and demographic performance of the economy had fallen short of earlier expectations and as a result unemployment has been on an increase. This problem was tried to be tackled by following the twin strategy of making development more employment oriented by encouraging growth of employment intensive sectors and on the other hand, introducing special employment programmes for creating both short term wage employment and self employment.

**Keyword:** Industriatisation, Economy, Employment

### Introduction

With the introduction of new economic policy, the employment opportunities in public sector has declined tremendously although the economic growth rate has accelerated. And most new jobs were located in the informal sector with low earnings and no social protection. The start of the new Millennium, however, generated some optimism regarding growth in employment opportunities and it was well supported by NSSO estimates 2004-05. But the results of the last NSSO Round (2009-10) suggest a virtual stagnation in employment during 2004-05/2009-10.

The present paper describes the growth and structural changes in employment in the long and short periods, with special focus on the post reform period. It assesses the employment challenge in quantitative and qualitative dimensions and examines the prospects of generating productive employment in adequate quantity and quality. The paper concludes with some broad policy measures for increasing productive employment

### The Employment Scenario

According to ILO data, most of the developed countries saw an increase of less than 1% per annum in their employment during 1990s (0.45% in US, 0.18% in UK, 0.32% in France, 0.41% in Germany and -0.15% in Japan). In the case of developing countries, strictly comparable data are not available, but broad assessment reveals an average growth rate of 1.5% per annum during the period. During the past decade, 2001-10, employment is estimated to have grown globally to about 1.5% per annum. South Asia recorded a steady growth rate of employment at 2.4% in which India had a major contribution. India's record employment growth, however, has not been adequate in view of the faster growth of the labour force. Further, sectors with higher employment potential had registered relatively slower growth. Agriculture still continued to be the largest employer as non-agricultural sectors have not generated enough employment to effect a shift of workforce. Most of the employment growth has been contributed by the unorganized, informal sector which is characterized by poor incomes



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and conditions of work. Workers could manage to get employment in organized sectors only as casual and contract labour.

**Table-1**  
**Growth of Employment (UPSS)**

Sector	1972-73/77-78	1977-78/83	1983/87-88	1987-88/93-94	1993-94/99-2000	1999-00/2004-05	2004-05/2009-10
<b>Primary Sector</b>	1.78	1.56	0.28	2.16	0.05	1.40	-1.63
Mining & quarrying	4.36	7.14	5.34	1.69	-2.11	2.41	3.00
Manufacturing	5.43	3.08	4.66	0.05	1.62	5.06	-1.06
Utilities	2.78	12.39	7.21	4.37	-5.89	3.22	1.02
Construction	1.67	6.84	13.91	-0.11	6.38	8.18	11.29
<b>Secondary Sector</b>	4.78	3.95	6.44	0.19	2.44	5.83	3.46
Trade, Hotelling etc.	6.40	2.87	3.96	3.62	6.28	4.01	1.10
Transport & Communication etc.	6.21	5.36	3.02	3.67	5.09	5.23	2.14
Financing, Insurance, Real estate & business services	6.84	7.68	1.41	5.24	5.28	9.62	5.77
Community, social and personal services	3.24	3.01	0.31	6.68	-1.48	2.71	0.99
<b>Tertiary Sector</b>	4.86	3.46	2.11	5.03	2.85	4.08	1.59
All Non-Agricultural	4.82	3.67	4.09	2.82	2.68	4.81	2.41
<b>Total</b>	<b>2.61</b>	<b>2.19</b>	<b>1.53</b>	<b>2.39</b>	<b>1.04</b>	<b>2.81</b>	<b>0.22</b>

Source:- Various Rounds of NSSO data on employment and unemployment.

Table-1 indicates that secondary sector has been the main employment provider during the reference period. In the secondary sector, a high employment growth despite moderate rates of GDP growth has been possible due to high and rising employment elasticity. But in the tertiary sector, even a high GDP growth has not been able to maintain a high growth in employment because of steep decline in employment elasticity.

Looking at the employment performance within secondary and tertiary sector, we find that construction industry in the secondary sector had maintained a consistent record of providing gainful employment. In the services sector, trade & transport and financial services have recorded highest increase in employment over the longer period 1983-2005.

The fact that rate of employment growth has declined cannot be ignored. What is more surprising is the fact that this decline has been coupled with an acceleration in the rate of economic growth. The employment growth rate and growth rate of GDP over different time period is depicted in Table- 2.

**Table-2**

Period	GDP Growth Rate	Employment Growth Rate
1972-73 to 1983	4.7%	2.4%
1983 to 1993-94	5%	2.0%
1993-94 to 2004-05	6.3%	1.8%
2004-05 to 2009-10	9%	0.22%

Source:- National Accounts Statistics, Central Statistical Organization, various years.

#### **Comparative Study of growth in employment in Rural and Urban Areas**

The development process has, no doubt, been accelerated in urban areas over the years but the rate of employment growth had been high in rural areas. This has been particularly so in non-agricultural activities (Table-3). A comparison of employment growth in rural areas vis-à-vis urban areas reveals that employment in all non-agricultural activities together grew at 4.58% per annum in urban areas during 1972/73 to 1983; growth rates for rural and urban areas were similar at 3.65% during 1994-2005 (Papola and Sahu, 2012). Only during 1983 and 1993-94, urban growth rate was higher at 3.5% as compared to

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3.2% for rural areas. During 2005-10, rural areas did better than urban areas in growth of non-agricultural employment. The pattern of employment growth in terms of rates of employment growth in different activities is found to be similar in rural and urban areas. Construction showed the fastest growth in both rural and urban areas. During the period 1993-94 to 2004-05, employment growth in construction sector has been much higher at 8.3% per annum in rural as compared to urban areas at 5.6%. Transport ranks second and trade third in employment growth in rural areas (Table-3 and Table-4).

**Table-3**  
**Growth of Urban Employment (UPSS)**

Sector	1972-73/77-78	1977-78/83	1983/87-88	1987-88/93-94	1993-94/99-2000	1999-00/2004-05	2004-05/2009-10
<b>Primary Sector</b>	5.01	3.27	0.42	1.99	-3.48	4.47	-1.17
Mining & Quarrying	1.54	9.23	4.88	2.79	-3.69	3.00	-1.87
Utilities	-8.86	24.12	4.73	3.77	-4.16	4.05	0.93
Construction	2.90	7.62	5.91	6.26	6.29	4.68	6.60
<b>Secondary Sector</b>	4.86	3.80	5.13	1.04	2.32	5.60	2.01
Trade, Hotelling etc.	5.50	2.61	3.88	3.82	8.08	2.53	1.43
Transport & Communication etc.	5.96	4.02	1.78	3.59	3.94	4.36	1.77
Financing, Insurance etc.	5.73	4.45	5.43	5.49	5.59	9.96	6.67
Community & Social Services	2.52	3.66	0.24	7.24	-1.87	3.75	1.58
<b>Tertiary Sector</b>	4.23	3.38	2.10	5.32	3.37	3.78	2.06
All Non-Agricultural Activities	4.47	3.54	3.33	3.61	2.99	4.44	2.04
<b>Total</b>	<b>4.55</b>	<b>3.50</b>	<b>2.91</b>	<b>3.40</b>	<b>2.30</b>	<b>4.44</b>	<b>1.78</b>

Source:- Various Rounds of NSSO data based on employment and unemployment. Papola and Sahu, 2012.

**Table-4**  
**Growth of Rural Employment (UPSS)**

Sector	1972-73/77-78	1977-78/83	1983/87-88	1987-88/93-94	1993-94/99-2000	1999-00/2004-05	2004-05/2009-10
<b>Primary Sector</b>	1.66	1.49	0.28	2.17	0.20	1.29	-1.65
Mining & Quarrying	5.83	6.11	5.89	1.09	-1.25	2.11	5.21
Manufacturing	5.34	3.45	4.33	0.36	1.64	4.00	-2.74
Utilities	17.15	1.66	11.1	5.14	-8.10	1.75	1.2
Construction	0.91	6.22	18.4	-3.48	6.44	10.52	13.59
<b>Secondary Sector</b>	4.71	4.08	7.57	-0.53	2.55	6.03	4.55
Trade, Hotelling etc.	7.62	3.19	4.05	3.37	3.77	6.23	0.65
Transport & Communication etc.	6.77	8.07	5.13	3.77	6.68	6.23	2.58
Financing, Insurance etc.	10.64	15.33	-7.21	4.44	4.24	8.41	2.05
Community & Social Services	4.08	2.26	0.45	6.21	-1.02	1.35	0.16
<b>Tertiary Sector</b>	5.72	3.58	2.13	4.64	2.12	4.52	0.90
All Non-Agricultural Activities	5.23	3.82	4.90	2.01	2.23	5.25	2.84
<b>Total</b>	<b>2.21</b>	<b>1.89</b>	<b>1.19</b>	<b>2.12</b>	<b>0.67</b>	<b>2.29</b>	<b>-0.34</b>

Source:- Various Rounds of NSSO data based on employment and unemployment. Papola and Sahu, 2012

### Workforce Structure and Quality of Employment

Whereas the quantity of jobs available is a serious constraint, the qualitative dimension of employment challenge is as much serious. We find that a large number of workers who have the ability to earn more are forced to live in abject poverty because of lack of full time job opportunities. The worst sufferers are the women workers whose participation in the primary sector is much more than their male counterparts, but, in secondary and tertiary sector, they get less job opportunities. This clearly indicates that their financial condition is worse as compared to males (Table-5).

**Table-5 : Sectoral Distribution of Male and Female Workers (UPSS)**

Year	Primary Sector	Secondary Sector	Tertiary Sector
1993-94 (Males)	57.43	16.76	25.81
(Females)	77.52	11.24	11.25
1999-00 (Males)	53.53	18.16	28.31
(Females)	75.36	12.00	12.64
2004-05 (Males)	48.64	21.09	30.27
(Females)	72.26	13.96	13.78
2009-10 (Males)	45.27	24.02	30.71
(Females)	66.99	16.82	16.19

Source: Various Rounds of NSSO data.

Only about one-third of India's workforce consists of women but a large majority of them are engaged in agriculture. Out of the estimated 136 million women workers in India in 2007-08, only 4% were able to get employment in the organized sector. Such employment is mostly in community, social and personal services. In the unorganized sector, women workers face a number of problems. These include lack of training facilities, access to credit, absence of social security measures etc.

#### **Improving the Quality of Employment: Productivity Increase**

It is clear that employment opportunities should be increased to ensure quality employment to an increasingly larger number of Indian workers. Increasing employment opportunities would ensure jobs to the unemployed while at the same time, it will improve the quality of employment of those already at work, by enabling them to shift to better quality jobs and increasing the demand pressure in the labour market. The emphasis should be on increasing the productivity of labour force rather than on increasing employment because the labour market already has a good chunk of 'working poor'. The most preferred 'quality-employment-creating-growth strategy' should consist of a high rate of GDP growth derived from faster growth of sectors with relatively high employment elasticity and high productivity and primarily productivity-led growth in sectors with low productivity. The shift of workers from low productive agriculture sector to highly productive non-agriculture sector is apparent. Among the non-agriculture sectors, construction, manufacturing, transport, financial services and information technology sector have emerged as most promising. But most of these sectors provide employment only in the private sector. Public sector, which has the potential of providing quality employment, has registered a declining trend as far as employment generation is concerned. The growth in this sector is coupled with growth of GDP.

#### **Strategy for faster growth of Productive Employment**

As discussed earlier, the sectoral and gender asymmetry in the employment pattern as witnessed in our country needs to be addressed for improving employment opportunities both quantitatively and qualitatively. The following strategies would be helpful in this regard:-

1. Economic growth rate needs to be accelerated in order to create new jobs and to improve the quality of existing jobs. Those sectors which have the potential

of generating more jobs, need to be targeted for a faster growth rate.

2. Since there is large scale migration of workers from agriculture sector to manufacturing and services sector, a quantitative and qualitative improvement in employment in agriculture sector is much needed. The growth rate in agriculture sector needs to be accelerated and cropping pattern should be diversified.
3. Workers engaged in informal sector face the problem of poor working conditions, inadequate social security, poor access to credit and technical knowledge etc. Hence, suitable strategy should be chalked out to overcome such problems of workers.
4. The existing labour laws in our country are highly restrictive in nature. As such, it hinders the employment expansion in organized sector. Since decisions pertaining to labour laws have political implications, hence, every ruling party shy away from it. It is necessary to bring in changes in the labour laws regime in India to ensure expansion of and improvement in overall quality of employment. IDA provisions of prior government permission for retrenchment, lay-off and closure needs to be removed with corresponding enhancement of compensation from the present 15 days wage for each completed year of service. Contract labour should be used more flexibly in places where labour is not required on a stable long term basis. Minimum quality of work conditions and social protection should be ensured to workers in the informal sector.
5. Last but not the least, proper and adequate programmes should be organized for workers already engaged and for potential workers so that their bargaining power in terms of wages and service conditions could be improved.

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