

**UPDATED VALUE ADDITION MATERIAL 2024**  
**INDIAN ECONOMY**

# UNEMPLOYMENT



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# 1. Work and Employment

**Work** can be defined as the carrying out of tasks requiring the expenditure of mental and physical effort with the objective of production of goods and services that cater to human needs. **Employment** is a contract between two parties, where the work is paid for.

## Definition of 'formal' worker

In India, there exist various definitions of 'formal worker', such as:

- Those employed with enterprises registered under the Factories Act, 1948 (thus excludes those in services sector)
- Those in enterprises with 10 or more workers and all government workers
- Those who have a contract regardless of the size of the enterprise in which they work (Arjun Sengupta Committee Report)

A formal job is generally understood as regular salaried job in government establishments or private enterprises and one that comes with entitlement to one or more of the following social security benefits: provident fund, pension, gratuity, healthcare and maternity.

EMPLOYMENT: TYPES			
Employment Type		Enterprise Type	
		Organised	Unorganised
		Formal	Informal
	Formal	Regular salaried work with some job security and benefits, in enterprises employing 10 or more workers.	Regular salaried employment with some benefits, in enterprises employing less than 10 workers.
	Informal	Various types of contract work and employment of short duration, without job security, in enterprises employing 10 or more workers.	All types of casual work, work for daily, weekly, or self-employment with no benefits or security, in enterprises employing less than 10 workers.

## 1.1. Nature of Employment in India

The nature of employment in India is multifaceted. Some get employment throughout the year while some others get employed for only a few months in a year. Therefore, the economic planning in India aims to utilise the available resources in a manner which would maximise the rate of growth with optimal employment generation.

**Increasing Gig Workers:** As per NITI Aayog report 2020-21, 77 lakh workers in India were engaged in Gig Economy. Gig Workers are those engaged in livelihood outside the traditional employer-employee arrangement. A Gig economy is a **free market system** in which **temporary positions** are common and organisations **contract** with independent workers for short-term engagements.



## 1.2. Formalization of Indian Economy

Formalization means creation and expansion of formal jobs, essentially, that come with social security, financial inclusion and legal empowerment of the workforce.

### Advantages of formalization

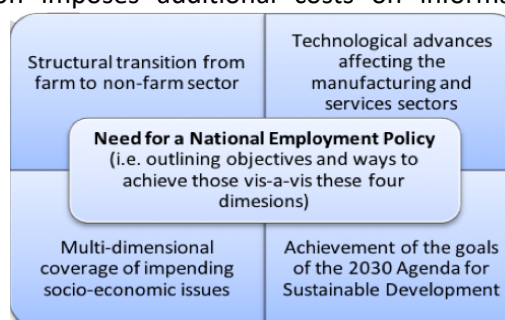
- Increased tax revenues for the government due to better reporting under taxation laws
- Coverage of population under social protection plans, saving from financial distress during difficult times
- Increase workers' welfare and the opportunities for decent jobs
- Reduce unfair competition between formal and informal enterprises arising from tax or regulatory arbitrage

### Downsides of formalization

- Exclusion of population, if knee-jerk steps are taken e.g. demonetization
- Poverty and destitution as rapid formalization imposes additional costs on informal economy.

### How should we go about it?

- Stress on creation of high-productivity high-paying jobs (more under 'job creation')
- Build synergies between different sectors of economy, by inter-Ministries' coordination.
- Ensure employability by addressing skill-mismatch, formal skill training and re-training.
- Improve women's participation in the economy, in line with SDG 5 on Gender Equality.
- Slow transition of informal sector into the formal economy, to avoid downsides of formalization process.



Devising a **National Employment Policy** would go a long way in ensuring coherent and converging actions for formalization of Indian economy.

## 1.3. Sector Wise Employment in India

As per annual PLFS report 2022-23, out of the total workforce employed, 45.8 per cent is employed in agriculture and 54.2 percent in industry and services. The Broad Industry Division-wise percentage distribution of workers during PLFS 2017-18 to 2022-23 are as below:

S. No.	Broad industries as per NIC 2008	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
1	Agriculture	44.1	42.5	45.6	46.5	45.5	45.8
2	Trade, Hotel, restaurant	12.0	12.6	13.2	12.2	12.1	12.1
3	Construction	11.7	12.1	11.6	12.1	12.4	13.0
4	Manufacturing	12.1	12.1	11.2	10.9	11.6	11.4
5	Transport, storage & communications	5.9	5.9	5.6	5.4	5.6	5.4
6	Electricity, water, etc.	0.6	0.6	0.6	0.6	0.6	0.5
7	Mining & quarrying	0.4	0.4	0.3	0.3	0.3	0.3
8	Other services	13.2	13.8	11.9	12.0	11.9	11.4

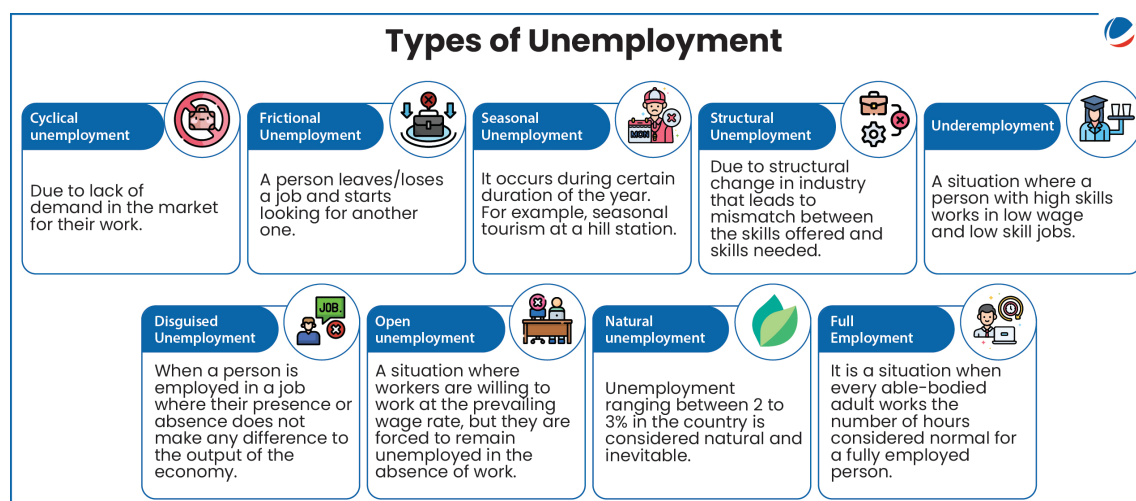
## 2. Unemployment

Unemployment is a situation in which individuals are ready and willing to work at the prevailing rate of wages but cannot get the work. According to the NSSO, **unemployment** is a situation in which all those who, owing to lack of work, are **not working** but either **seek work** through employment exchanges, intermediaries, friends or relatives or by making applications to prospective employers or **express their willingness or availability for work** under the prevailing conditions of work and remunerations

$$\text{Number of unemployed} = \text{Labour Force} - \text{Work force}$$

Where, workforce = working or being engaged in economic activity and labour force = work force + not engaged in economic activity and either making tangible efforts to seek work or being available for 'work' if the work is available.

### 2.1. Types of Unemployment



#### The case of Jobless growth

It is an economic phenomenon in which a macro economy experiences growth while maintaining or decreasing its level of employment. India faced jobless growth from period 2004-05 to 2009-10. The robust growth witnessed by India, has been mostly associated with a rapid rise in labour productivity, rather than an expansion in employment. The total employment grew by only 0.1 per cent during five years till 2009-10 (from 457.9 million in 2004-05 to 458.4 million in 2009-10), while labour productivity grew by more than 34 per cent in total during this period

Over-emphasis on services and neglect of the manufacturing were mainly responsible for this phenomenon. The number of people seeking jobs are growing in India and they need to be constructively engaged to avoid socio-economic conflict and arrest the increasing Informalisation in the economy.

Experts argue that the growth of manufacturing will be the key for growth in income and employment for multiple reasons. For every job created in the manufacturing sector, three additional jobs are created in related activities. The other is that manufacturing in India is scalable and has higher labour absorption in comparison to services.

### 2.2. Nature of Unemployment in India

- Since India is a developing country, the nature of unemployment is starkly different from the developed countries. In developed countries unemployment is primarily driven by a **fall**

**in demand.** As the demand for goods and services fall, the industries have to stop the production thus rendering the workers jobless.

- But in India **under-employment** or **disguised unemployment** is a major concern. This is not due to the lack of demand for goods but due to the **shortage of capital equipment** for setting up new industries. This creates **supply side constraints** in the economy. Because of the lack of capital, India has not been able to commensurately meet the needs of the growing labour force in the country. This manifests itself in two ways
  - **Firstly**, the prevalence of large-scale unemployment in the urban areas;
  - **Secondly**, in the growing numbers engaging themselves in the agricultural sector resulting in disguised unemployment.
- The basic solution to the entire problem is **faster rate of capital formation** so as to enlarge employment opportunities. For this the government needs to **encourage savings and their productive utilization in increasing the rate of investment**.
- The state itself can participate in the process of capital formation by undertaking such development activities since the private entrepreneurs do not find it profitable to undertake. There is also a need for the government to increase and attract more foreign investment.

## 2.3. Measuring Unemployment

The authentic data source of employment/unemployment indicators in India at present is the **Periodic Labour Force Survey (PLFS)** conducted by the Ministry of Statistics and Programme Implementation since 2017-18. Prior to PLFS i.e., before 2017-18, National Statistical Office (NSO), Ministry of Statistics and Programme Implementation, used to conduct quinquennial Employment and Unemployment surveys. National Sample Survey Office (NSSO) launched PLFS in April 2017.

In measuring employment/unemployment in a country like India, certain specific features of the workforce need to be taken into account. The structure of workforce with dominance of self-employment and primary sector tends to depress unemployment rates in general.

The Periodic Labour Force Survey (PLFS) gives estimates of key employment and unemployment Indicators like, the Labour Force Participation Rates (LFPR), Worker Population Ratio (WPR), Unemployment Rate (UR), etc. These indicators, and the 'Usual Status' and 'Current Weekly Status' are defined as follows:

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**Labour Force Participation Rate (LFPR)**

LFPR is defined as the percentage of persons in labour force (i.e. working or seeking or available for work) in the population.



**Worker Population Ratio (WPR)**

WPR is defined as the percentage of employed persons in the population.



**Unemployment Rate (UR)**

UR is defined as the percentage of persons unemployed among the persons in the labour force.



**Activity Status-Usual Status**

The activity status of a person is determined on the basis of the activities pursued by the person during the specified reference period. When the activity status is determined on the basis of the reference period of last 365 days preceding the date of survey, it is known as the usual activity status of the person.



**Activity Status-Current Weekly Status (CWS)**

The activity status determined on the basis of a reference period of last 7 days preceding the date of survey is known as the current weekly status (CWS) of the person.



## 2.4. Unemployment Rate

Unemployment rate (UR) is defined as the number of people who were unable to find a job (though they were looking for jobs), as a ratio of total number of people who were looking for jobs.

### Unemployment in India

- As per Periodic Labour Force Survey (PLFS) Report 2022-2023, UR fell from 6% in 2017-18 to 3.2% in 2022-23.
- In rural areas, UR decreased from 5.3% in 2017-18 to 2.4% in 2022-23 while for urban areas it decreased from 7.7% to 5.4%.
- UR for male in India decreased from 6.1% in 2017-18 to 3.3% in 2022-23 and corresponding decrease in UR for female was from 5.6% to 2.9%.

Table 3: Unemployment Rate (UR) in usual status (ps+ss) for persons of age 15 years and above all-India

Indicator	Rural			Urban			Rural+Urban		
	male	female	person	male	female	person	male	female	person
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
2022-23	2.7	1.8	2.4	4.7	7.5	5.4	3.3	2.9	3.2
2021-22	3.8	2.1	3.2	5.8	7.9	6.3	4.4	3.3	4.1
2020-21	3.8	2.1	3.3	6.1	8.6	6.7	4.5	3.5	4.2
2019-20	4.5	2.6	3.9	6.4	8.9	6.9	5.0	4.2	4.8
2018-19	5.5	3.5	5.0	7.0	9.8	7.6	6.0	5.1	5.8
2017-18	5.7	3.8	5.3	6.9	10.8	7.7	6.1	5.6	6.0

Student Notes:

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## 2.5. Labour Force Participation Rate

- The labour force participation rate measures the proportion of people in the working-age (16 - 64 years) group who are actually available for work.
  - In rural areas, LFPR increased from 50.7% in 2017-18 to 60.8% in 2022-23 while for urban areas it increased from 47.6% to 50.4%.
  - LFPR for male in India increased from 75.8% in 2017-18 to 78.5% in 2022-23 and corresponding increase in LFPR for female was from 23.3% to 37.0%.

## 2.6. Women's Participation in the Labour Force

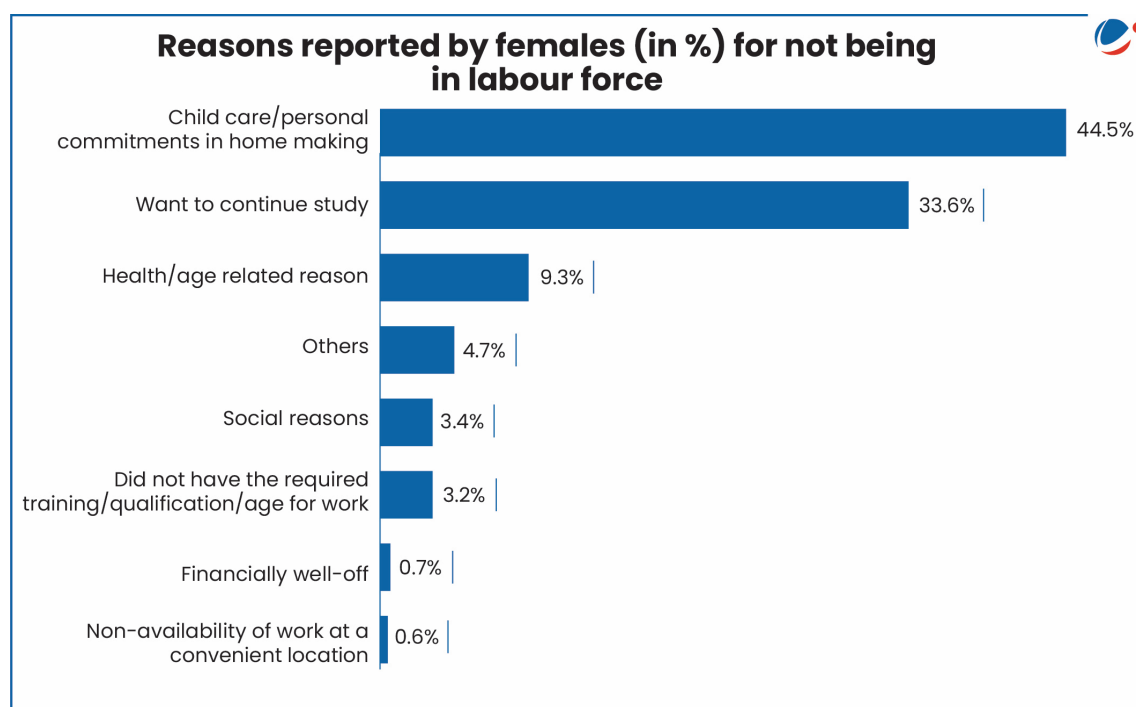
- The relatively low proportion of working women in India is one of the most significant obstacles to economic progress. As per Periodic Labour Force Survey (PLFS) Report 2022-2023, LFPR for male in India increased from 75.8% in 2017-18 to 78.5% in 2022-23 and corresponding increase in **LFPR for female was from 23.3% to 37.0%**.
- However**, the labour force participation rate of women in urban areas is less than the participation of women in rural areas.

### 2.6.1. Reasons for low female labour force participation

The participation of women in the labour market are primarily driven by various factors, viz., economic development, education levels, fertility rates, access to childcare and other supportive services and, ultimately, the cultural and normative context of society and social norms.

**World Bank Report "Reshaping Norms: A New Way Forward"** reveals that the economic development and increasing income levels don't seem sufficient to reduce stubbornly high gender gaps across multiple dimensions in the region. Social norms about gender can be considered as a key obstacle towards gender equality.

According to the PLFS 2021-22 results, the reasons cited by women for not being in labour force are as follows:



Women play the multidimensional role in the family and are, therefore, burdened with housework or house commitments, a situation that is influenced by **gender norms**. Such sort of



work is **overlooked, undervalued and under-reported**. Hence the measurement is another key issue in the arena of low female LFP.

Social norms are informal, unwritten rules of behaviour and social conduct that determines the acceptable, appropriate doings and attitude in the given social context. The prevalent social norms for female are “**Female Homemaker norm**”, which assigns that the role of taking care of home and children to women, and for males are “**Male Breadwinner norm**”, which assigns the responsibility of Household expenses to the man. Thus the prime social and cultural norm is ‘time poverty’ among married women.

Even when women are educated and allowed to work outside the home, they prefer not to do work due to the **disproportionate burden of the care economy**. Therefore, following basic interlinked factors explain the low female labour force participation in India:

- Unpaid domestic duties/Unpaid care work
- Pervasiveness of various gender biased social norms
- Rising household income which works as disincentive for female participation in labour market
- Salary/Wage Disparity

Further, education is one of the most important factors that influence the female labour force participation. The educational attainment has an important effect on an individual’s decision to participate in the labour market. There are many theories that underline the importance of education in employment outcomes. The theories also reveal that greater educational attainment leads to higher participation in the labour force and also increased productivity.

### 2.6.2. Government Interventions

The Government has taken various steps to improve female’s participation in the labour force, to ensure their economic security and quality of their employment.

#### Major Schemes/Policies/Programmes:

- **Beti Bachao Beti Padhao Scheme:** The scheme was launched for creating awareness among the people to educate all girl children in the country. It was launched with the objective to guarantee the survival, safety, and education of female children.
- **National Education Policy (NEP), 2020:** The policy prioritises gender equity and envisions ensuring equitable access to quality education to all students, with a special emphasis on Socially and Economically Disadvantaged Groups (SEDGs).
- **Working Women Hostel:** The Government introduced a scheme of grant-in-aid for construction of new/ expansion of existing buildings for providing hostel facilities to working women in cities, smaller towns and also in rural areas where employment opportunities for women exist.
- **One Stop Centre (OSC) and Universalization of Women Helpline:** The Scheme is intended to provide 24 hours immediate and emergency response to women affected by violence and information about women related government schemes programs across the country through a single uniform number.

### 2.7. Reasons for Unemployment

India has comparative advantage in terms of cheaper and more abundant labour. But this is nullified by other factors that render them less competitive than their peers in competitor countries.

- **Defective education system:** Failing education system that creates thousands of ‘unemployable graduates’. National Employability Report for Engineers (Aspiring Minds) reveals that over 80 per cent of Indian engineers are unemployable.
- **Slow economic growth:** Inadequate job creation (therefore non-farm sector (such as manufacturing) needs to be encouraged as farm land is limited.

- **Lack of infrastructural development:** India is behind its competitors when it comes to infrastructure such as road and logistics. The costs and time involved in getting goods from factory to destination are greater than those for other countries.
- **Poor ranking in Global Competitiveness Index:** reflected in the high average tariff that India is maintaining on its imports, low level of factor accumulation, and relatively high incremental capital-output ratio. India, ranked 40th on the 2023 Global competitiveness ranking, slipped three spots from previous year.
- **Rapid population growth:** Skilling and job creation is hard to catch up with a rapidly growing population especially when the population base is large and the institutions and policies are not effective in creating quality jobs.
- **Inadequate employment planning** by government in comparison to the population growth.
- **Lack of entrepreneurship culture-** India needs to develop a culture of job-providers rather than being a job-seeker among its youth.

## 2.8. Consequences of Unemployment

- **Unrest in population – especially the youth:** The Jat reservation stir in Haryana is a visible manifestation of a violent form of the problem of unemployment. Similarly other locally dominant caste and communities like Patels in Gujarat, Kapu community in Andhra Pradesh, Gujjar in Rajasthan are also demanding reservation in employment.
- **Low economic growth:** The human capital of a nation is not fully utilized if the unemployment rate is high. It turns the people who are an asset into a liability. Increase in unemployment is an indicator of a depressed economy.
- **Vicious cycles of Poverty:** Unemployment and poverty feed are the two sides of the same coin with one leading to the other. It also reduces demand which in turn affects other sectors of the economy.
- **Lower social indicators & burden on government:** Unemployment leads to reduced spending on health and education by people. This affects social indicators of the population.
- **Source of exploitation:** People cannot remain completely unemployed for very long because of their desperate economic condition. Thus, they are forced to accept jobs that may be unpleasant or exploitative.
- **Loss of labour efficiency:** When a person is out of work for long, his/her efficiency decreases as a result of loss of skills and work habits.
- **Adverse effects on savings:** As the employed person has to take care of the unemployed ones in the family, their capacity to save falls.
- **Leads to inequalities of income:** Unemployment pushes people to poverty. During the period of mass unemployment, the extent of poverty and inequality of income tends to increase.

## 2.9. Steps Taken by the Government to Tackle Unemployment

India is midway through its demographic dividend – a period of time when demography gives economic growth a boost by expanding the working-age share of the population. To exploit the dividend and meeting the aspirations of people entering the labour force, India's economy needs to create enough "good jobs". Accordingly, the Government of India has taken various steps for generating employment in the country.

### New Labour Codes

- For ensuring workers' right to minimum wages, the Central Government has taken a historical step of codifying 29 laws into 4 Codes namely Wage Code, Social Security Code, The Occupational Safety, Health and Working Conditions Code, and Industrial Relations Code.

**Aatmanirbhar Bharat package**

- Under this package, the Government is providing fiscal stimulus of more than Rs. Twenty Seven lakh crore.
- This package comprises of various long term schemes/ programmes/ policies for making the country self-reliant and to create employment opportunities.

**Aatmanirbhar Bharat Rojgar Yojana (ABRY)**

- It has been launched as part of Aatmanirbhar Bharat package 3.0 to incentivize employers for creation of new employment along with social security benefits and restoration of loss of employment during Covid-19 pandemic.

**Pradhan Mantri Mudra Yojana (PMMY)**

- It is being implemented by the Government for facilitating self-employment.
- Under PMMY, collateral free loans upto Rs. 10 lakh, are extended to micro/small business enterprises and to individuals to enable them to setup or expand their business activities.

**The Production Linked Incentive Schemes** being implemented by the Government have potential for creating 60 lakh new jobs.

**PM GatiShakti**

- It is a transformative approach for economic growth and sustainable development driven by seven engines, namely, Roads, Railways, Airports, Ports, Mass Transport, Waterways, and Logistics Infrastructure.
- This approach is powered by Clean Energy and Sabka Prayas leading to huge job and entrepreneurial opportunities for all.

The Government of India is providing substantial public expenditure on schemes like:

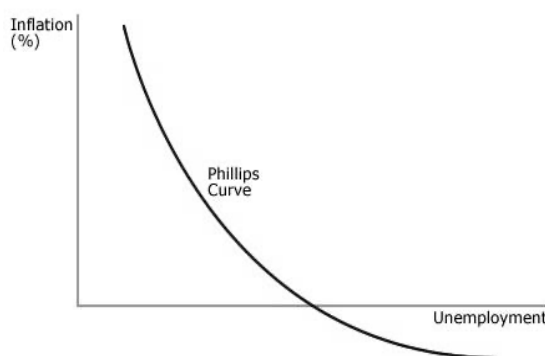
- **Prime Minister's Employment Generation Programme (PMEGP)** of the Ministry of Micro, Small & Medium Enterprises
- **Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) & Pt. Deen Dayal Upadhyaya Grameen Kaushalya Yojana (DDU-GKY)** of the Ministry of Rural Development
- **Deen Dayal Antodaya Yojana-National Urban Livelihoods Mission (DAY-NULM)** of the Ministry of Housing & Urban Affairs etc. for employment generation.

Various flagship programmes of the Government such as **Start-up India, Stand-up India, Digital India, Smart City Mission, Atal Mission for Rejuvenation and Urban Transformation, Housing for All, Infrastructure Development and Industrial Corridors** are also oriented towards generating employment opportunities.

The Government has launched **e-Shram portal** for registration and creation of a Comprehensive National Database of Unorganized Workers. It allows a person to register himself/herself on the portal on self-declaration basis, which is spread across around 400 occupations.

### 3. Relationship between Unemployment and Inflation Rate

- Professor Phillips, emphasized that there exists a close relationship between the level of unemployment and the rate of wage increase in an economy. This relationship between the two is depicted in the form of **Phillips curve**.
- It is a graphic curve, which advocates a relationship between inflation and unemployment in an economy. As per the curve there is a **'trade off'** between



inflation and unemployment i.e. an inverse relationship between them. The curve suggests that lower inflation, higher unemployment and higher inflation, lower unemployment.

Student Notes:

## 4. Ruralisation to Rural Industrialization

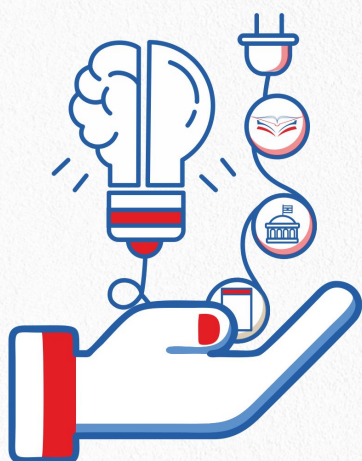
There have been some claims that rise in urban unemployment is forcing a structural shift towards “ruralisation” in India.

**Ruralisation** refers to opening of rural areas to renew rural generations, jobs, and farms. However, in a developing country like India, such trend is considered akin to deindustrialization. It refers to a situation where the productive capacity of the economy is distorted.

### 4.1. Indications of Ruralisation

- **Workforce shift towards agriculture:** India’s workforce dependence on agriculture has risen from 42.5 per cent (2018- 19) to 45.5 per cent in 2021-22 (PLFS).
- **Demand for cereals rising again:** India’s monthly per capita consumption of cereals has risen in the last decade. This indirectly creates more jobs in the rural ecosystem. Fall in industrial production: India’s industrial growth fell to a 10-year average of 2.1 per cent, compared to 7.7 per cent during 2000-12. Thus, hindering creation of new jobs.
- **Persistence of unemployment problem:** Employment and income situations have remained weaker than pre-pandemic and 10 years back resulting in a worsening of per capita income, amid the rising cost of living.
- **Chronic lack of private investments:** Share of private fixed capital formation has continued to decline from 10.8 per cent in FY19 to estimated 8.4 per cent in FY22, affecting infrastructure development.

## OPTIONAL SUBJECT CLASSES



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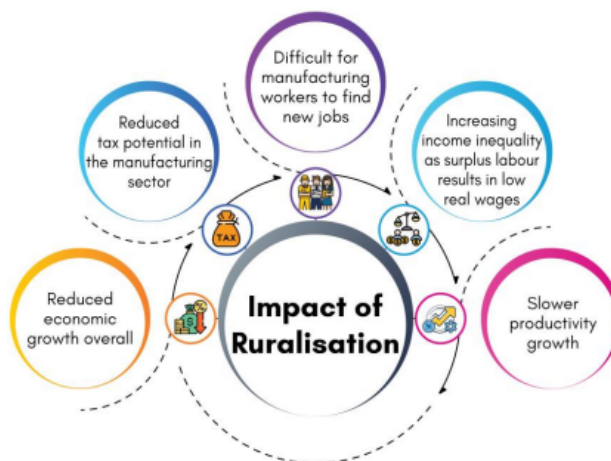
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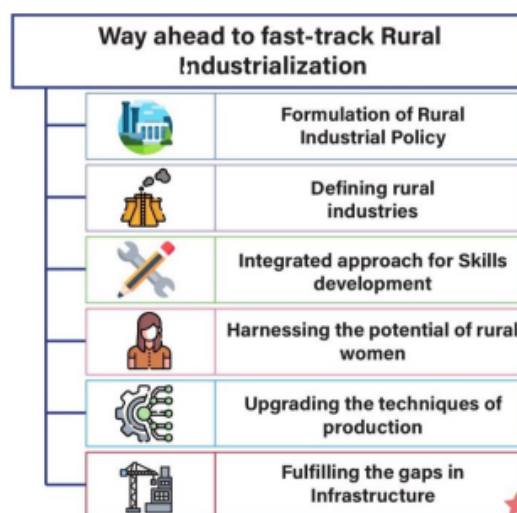
## 4.2. Benefits of Ruralisation

- **Rural Economy:** Rural Industrialization increases skilled as well as non-skilled employment opportunities and diversifies rural occupations.
- **Addressing the problems of agricultural labourers:** These industries can provide additional and off-season employment to agricultural labourers.
- **Balanced industrialization:** It prevents concentration of economic development in already developed urban areas and channelizes investment to rural areas. Preservation of India's rich culture: It can help in preserving craftsmanship and art heritage of the country. E.g., Pashmina shawls of Kashmir, Blue Pottery of Jaipur, Bangles of Faizabad etc.
- **Promoting Micro and Small Enterprises (MSEs):** Presently, around 20% Micro and small-scale enterprises (MSEs) units are located in rural areas that act as ancillary industries for large scale industries.



## 5. Potential Sectors for Employment Generation

- At present almost half of India's population is concentrated in the agricultural sector. In fact, the agricultural sector shows signs of **disguised employment** and **low productivity**. There is an urgent need to take workforce out of this sector towards **manufacturing and services**. Creating jobs in the latter sectors is India's central challenge.
- India needs to generate jobs that are **formal and productive**, provide bang-for-buck in terms of jobs created relative to investment, have the potential for **broadier social transformation**, and can generate exports and growth.
- Moreover, India's growth has to be led by manufacturing, not services because, among other reasons, **employment elasticity is higher in manufacturing**. Also, a large section of the labour force has little or no education, and cannot be employed in skilled jobs in the services sector. Nor can they be easily skilled, given their lack of basic education. Outside agriculture, they can only be employed in low-skill jobs in the manufacturing sector.
- Meeting the challenge of jobs may require paying attention to **labour-intensive sectors**.
  - The **apparel and leather sectors** meet many desirable attributes for policy attention: bang- for buck for creating jobs, especially for women, opportunities for exports and growth.
    - ✓ Nearly every successful economic growth take-off in post-war history in **East Asia** has been associated with rapid expansion in **clothing and footwear exports** in the early stages. Apparels and Leather sectors offer tremendous opportunities for creation of jobs, especially for women.



- Rising labor costs means that China is gradually vacating its dominant position in these sectors, affording India an opportunity. To not cede this space to competitors such as Vietnam and Bangladesh will require **easing restrictions on labor regulations, negotiating FTAs with major partners such as the EU and UK**, and ensuring that the **GST rationalizes current tax policy** that can discriminate against dynamic sectors.

Student Notes:

#### Opportunity sectors for employment growth

- **MSMEs (Micro, Small, and Medium Enterprises)** that are integral to India's economy, contributing more than 30 percent to the GDP, with a substantial share in exports.
- India's domestic manufacturing has the opportunity to strengthen its position within **Global Value Chains (GVCs)** to increase the scale of its operations.
- **Labour-intensive export sectors**, such as toys, textiles, footwear, and furniture, hold potential to generate a substantial share of domestic jobs that can support growth and employment in the medium term.
- The employment landscape of India is evolving, with numerous service sectors offering substantial growth potential such as **E-commerce, Financial services, Health services, Hospitality, Global capability centres, Renewable energy, Startup ecosystem, etc.**

**To support India's expanding employment outlook over the next decade, it is crucial to take following measures:**

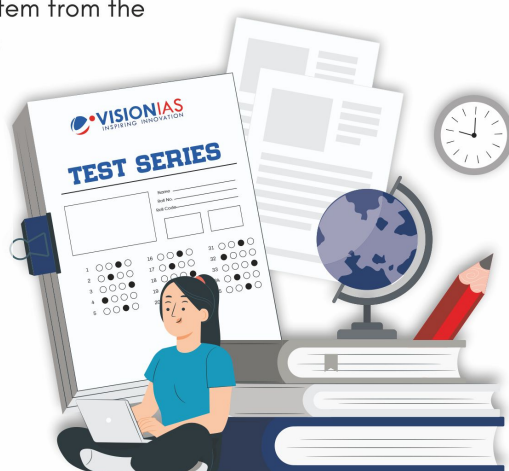
- Identify and address employability gaps.
- Diversify skill development.
- Facilitate natural transitions in employment sectors, such as from agriculture to agri-product processing to retail services.
- Promote entrepreneurship
- Encourage public-private collaboration.
- Strengthen government policies.

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## 6. Previous Years UPSC Mains Questions

1. Most of the unemployment in India is structural in nature. Examine the methodology adopted to compute unemployment in the country and suggest improvements. (2023)
2. "Economic growth in the recent past has been led by increase in labour activity." Explain this statement. Suggest the growth pattern that will lead to creation of more jobs without compromising labour productivity. (2022)
3. Account for the failure of manufacturing sector in achieving the goal of labour-intensive exports. Suggest measures for more labour-intensive rather than capital-intensive exports. (2017)
4. How globalization has led to the reduction of employment in the formal sector of the Indian economy? Is increased informalization detrimental to the development of the country? (2016)
5. "Success of 'Make in India' program depends on the success of Skill India programme and radical labour reforms." Discuss with logical arguments. (2015)
6. The nature of economic growth in India in recent times is often described as jobless growth. Do you agree with this view? Give arguments in favour of your answer. (2015)
7. "While we flaunt India's demographic dividend, we ignore the dropping rates of employability." What are we missing while doing so? Where will the jobs that India desperately needs come from? Explain. (2014)

## 7. Vision IAS GS Mains Test Questions

1. *Clearly delineate the 'employment problem' that India currently faces. Also, explain the fundamental reasons behind existence of this problem.*

### Approach:

- Briefly discuss the complexity of the employment problem in India.
- Elaborate on the nature of the employment problem that India faces.
- Substantiate the fundamental reasons for the same.
- Conclude with a way forward.

### Answer:

The nature of the employment problem that confronts India today is complex and it differs sharply from industrially advanced economies. The recent reports by the Centre for Monitoring Indian Economy (CMIE) show that the unemployment rate has increased from around 7% in July, 2021 to 8.3% in August, 2021.

### Nature of India's employment problem:

- **Issues with the organised sector:** India's employment problem is marked by **low demand for labour** in the organised sector. Further, a large number of salaried individuals lost their jobs in the sector due to the COVID-19 pandemic.
- **Subsistence employment:** Among the employed, a high proportion of poor suggests that a large proportion of workers are engaged in **subsistence employment**.
- **Predominantly unorganised:** Only about 8% of the total employment is in the organized sector. **More than 90% of the workforce is engaged in the informal sector**, which is largely outside the reach of social security benefits and has limited access to institutional facilities. Further, the sector is characterised by **low quality of work**.
- **Predominantly rural:** Indian economy, being predominantly a rural economy, sees the bulk of unemployment manifest itself into **seasonal unemployment and perennial under-employment or chronic disguised unemployment**.

- **Technology-driven job losses:** Disruptive technologies like artificial intelligence and machine learning, the advent of supercomputing, capital-intensive manufacturing etc. have rendered a large section of the population obsolete in skills and employability.

**Fundamental reasons for the employment problem in India are:**

- **Principal economic activity:** Agriculture is the principal occupation in rural India and the absence of the corresponding cultivable land results in perennial under-employment or chronic disguised unemployment.
- **Changing structure of economy:** The pattern of production in the organised sector has moved towards capital and skill-intensive sectors and away from labour-intensive sectors, thereby excluding a vast section of the workforce. For instance, the tech-enabled agricultural practices deliver higher yield levels with much lesser labour requirement than traditional agriculture.
- **Labour market segmentation:** The labour market in India is characterised by a **higher degree of informality**. Although the rise of gig economies has led to job opportunities for semi-literate/semi-skilled workers, the **nature of employment** has been **non-standard** i.e. mainly informal, part-time and temporary and concentrated mainly in urban areas.
- **Labour market rigidities:** The workers are often subjected to **rigid and inordinate labour laws** which are antithetical to labour welfare, safety and job security.
- **Dualistic growth of manufacturing sector:** The growth of manufacturing sector in India has been “dualistic”. There has been an increase of employment at both ends of the firms’ size distribution i.e. small and large, which has led to an underdevelopment of employment in medium-sized firms. This pattern has contributed to the **relatively slow growth** of the manufacturing sector.

The employment problem of India can be marked as one related to the general development of the economy. Raising the demand for labour in the organized sector will require policies to increase the pace and labour-intensity of the sector. **Integrated rural-urban economic structure** codified with improved and **effective labour laws** and **strong political will to reform** are the keys to tackle the problem at hand. Further, adequate security and effective institutional support for the unorganized sector is the need of the hour.

**2. Discuss the need for a National Employment Policy in India. What should be taken into account while formulating such a policy?**

**Approach:**

- Briefly, bring out the present unemployment scenario in India.
- Highlight the need for National Employment Policy in India.
- Discuss major factors that should be taken into account while formulating such policy.
- Conclude accordingly.

**Answer:**

According to a periodic labour force survey by the National Statistical Office (NSO), India’s **unemployment rate** has increased from 3.8 percent in 2012-13 to **10.3 percent in 2020**. Moreover, the Covid-19 pandemic has taken away millions of jobs, raising the overall unemployment rate to alarming levels. Therefore, the government has decided to **set up a committee to frame India's first National Employment Policy**.

Employment challenges in India are getting more and more complex, thereby making such a policy more relevant:

Student Notes:

- **Demographic changes:** Today, India has the world's **largest youth population** and providing employment opportunities to them is putting enormous pressure on the labour markets.
- **Structural changes in the economy:** Post-liberalization, the Indian economy has witnessed structural transformation leading to **movement of workers from the agricultural sector to manufacturing and services sector**. Such a shift in workforce composition requires **skilling of people**, making the policy relevant.
- **Disparity in growth and development:** Economic growth does not automatically translate into more decent jobs and more benefits for the poor. Educational, **social and regional factors** of disparity contribute to uneven distribution of employment opportunities.
- **Informal employment:** Still there are large numbers of workers employed in the **unorganized sector** in India and these **jobs do not provide social and legal protections** and employment benefits.
- **Wage inequality and female workforce participation:** It is rising across the states in India, especially **gender based pay gap** which leads to denial of benefits to workers from economic growth. More and more women are joining the labour force, but their quality of employment and working conditions need improvement.

**Major factors that should be taken in to account:**

- **Based on statistical accuracy:** The policy should be **based on the data** that emerges from the employment surveys currently underway instead of referring to old data.
- **Role of gig economy:** The policy should **take into account the jobs estimated to be created** under the **production-linked incentive (PLI)** scheme across a dozen sectors besides the rising number of gig workforce and platform workers in the country.
- **Incentives:** The policy should **lay out a sectoral roadmap** with incentives for employment generation.
- **Focus on female workforce:** Considering the rising female workforce participation and challenges faced by them, there is greater need to put **emphasis on female workforce participation**.

In nutshell, the policy needs to be targeted at creating an enabling environment for attracting new enterprises and industries to generate employment opportunities. The policy would be a critical tool to contribute significantly to achieve the goals of the **2030 Agenda for Sustainable Development**.

**3. *Stating the factors that determine the employment situation of an economy in the long-term, discuss the measures that are needed for India to address its unemployment problem.***

**Approach:**

- Introduce by briefing about unemployment in India.
- List factors that determine the employment situation of an economy in the long term.
- Discuss strategies that are needed for India to address its unemployment problem.
- Conclude appropriately.

Unemployment is a crucial indicator of an economy's health. The current unemployment level in India is at 7.9% as of December 2021. High rates of unemployment point to an ailing economy as it is through wages resulting from employment, that the working population can partake in the value that they help generate in the economy.

The factors, which influence employment outcomes of an economy in the long term, operate both on the demand and supply side:

#### A. Supply of Labour

- **Age structure of population:** The size of the labour force is influenced by age structure, more specifically by the growth of population in the working age group (15 to 59) vis-a-vis growth of overall population.
- **Labour Force Participation:** The labour force participation rate (LFPR) is influenced by the need to work versus other alternative uses of one's time.
- **Labour Force skills:** Income of labour is determined by productivity. Both the technology used and the skill level of workers determine labour productivity.

#### B. Demand for Labour

- **Structure of Economy:** As part of modernisation of economies, opportunities that are lost in traditional labour-intensive sectors like agriculture are replaced by the secondary and tertiary sectors that grow much faster during transition of an economy.
- **Formal and Informal Sector:** An increase in the share of organized sector results in improvement in quality of employment than under purely informal conditions.
- **Labour Laws:** Labour laws framework significantly impact growth of labour intensive sectors as matter of design. These laws create incentives for greater and faster absorption of labour, without sacrificing their core welfare concerns.

#### C. Patterns of Labour Migration

- Depending upon the stage of demographic transition and growth pattern, the experience of different states in terms of labour force growth and employment generation is likely to be varied. This has implications for the inter-state variations in the incidence of unemployment and also on the migration of labour in search of work.

#### Strategies to overcome unemployment problem in India

- Creating incentives and policies for a **reduction in differentials between male and female labour force participation rates**. In the long term, a **strategy to impart vocational skills** will facilitate an increase in income of labour. For this, we need to reform the curricula and pedagogy of our education system and invest in a massive expansion of training facilities.
  - Preference needs to be granted to **possession of "marketable skills"** vis-à-vis general education.
- Slightly **altering the structure of growth in favour of labour intensive sectors** to achieve the overall balancing between the supply and demand for labour.
- Addressing possibilities for **diversification in the agricultural sector towards more value added activities** such as food processing by accelerating reforms and allocating greater resources.
- There is also a strong need to **restructure the rural economy** by way of promotion of non-farm activities in rural areas.

- **Strengthening the ability of the manufacturing sector** to replace the work opportunities lost in traditional agriculture through use of labour intensive and capital saving technologies.
- **Further simplification of labour laws and designing labour regulations** and credit policy to be sensitive to the requirements of smaller establishments.

A significant sustainable change in inequality in income and wealth is possible only with adequate employment opportunities as other instruments such as target group policies and programmes have a short term impact. Thus, addressing unemployment becomes core to the progress.

**4. While fixed-term employment offers an ingenious way to address specific issues faced by both employers and employees, there are also some concerns associated with it. Discuss in the context of India.**

**Approach:**

- Briefly explain the meaning of fixed-term employment (FTE).
- Write about the benefits of FTE.
- Mention the concerns associated with FTE.
- Conclude with a suitable way forward.

**Answer:**

Fixed-Term Employment (FTE) refers to workers employed for a fixed duration based on a contract signed between the worker and the employer. The Code on Industrial Relations, 2020 provides for fixed-term employment.

**FTE offers following benefits to the employer as well as employees:**

- **Need of seasonal and demand based industries:** Some industrial sectors like leather-based industries, textile markets are seasonal or demand based in nature. The option of fixed-term employment enables employers to tap the talented workforce for a short period of time.
- **Elimination of middlemen:** Within the new framework, and in conjunction with the Industrial Relations Code (IRC 2020), firms will be able to directly hire contract workers through the fixed-term contract without middlemen in the way.
- **Reduces confrontations:** Delays in payment of remuneration has been a constant issue for decades and a reason for several industrial confrontations. For example, the confrontation at iPhone manufacturer Wistron in Karnataka was believed to have been linked to delay in payment to workers. The provision of release of remuneration within 7 days in the order will help address the same.
- **Alternative for contractual employment:** Under FTE, the person shall be eligible for getting all advantages which can be found for a permanent workman for a similar work content material, in contrast to the contractual work.

**However, the FTE also raises concerns in the minds of employees, such as:**

- **Potential threat to job security:** Trade unions have opposed FTE arguing that:
  - Power to renew such contracts lies with the employer. This **may deter employees from raising issues** about unfair work practices, such as extended work hours, or denial of wages or leaves.
  - Further, it **does not restrict the type of work** in which fixed term workers may be hired. So, trade unions have been apprehensive of the ambiguity in conversion of currently permanent employees to fixed term employment.

- **Difficulty in enforcement of agreements:** The basis for Fixed-Term Employment is a written contract, which will be difficult for employees to enforce given that the financial capacity and ability to clearly understand the contracts for the majority of the workforce is limited.
  - Also, contractual employment arrangements can be misused. For example, an illiterate workforce can be subject to economic exploitation through deceptive and complex contractual arrangements.

FTE is a step, which signals the intent of the Government to grow India on the manufacturing world map, without significantly compromising on labour interests. With universal adoption of the rules across all the states, it is expected to be a game changer as far as labour welfare and formalization of labour is concerned.

**5. Do you agree with the view that time has come to formulate an Urban Employment Guarantee scheme at the national level?**

**Approach:**

- Introduce by explaining the idea of an Urban Employment Guarantee scheme.
- Discuss the need of an Urban Employment Guarantee scheme at the national level.
- State the challenges associated with the scheme.
- Conclude accordingly.

**Answer:**

The core idea of an **Urban Employment Guarantee scheme** is that the government guarantees work at a minimum wage in order to create public assets and provide income support to the urban poor. In light of the growing distress among the urban poor, it is argued that time has come to formulate an Urban Employment Guarantee scheme at the national level. The scheme is expected to help in the following ways:

- **Reduce unemployment:** As per the Periodic Labour Force Survey 2019-20, unemployment rate in urban areas was around 7% as compared to approximately 4% in rural areas. Such a programme would give a statutory right to livelihood to urban residents.
- **Relief from COVID-19 Impact:** The impact of the COVID-19 pandemic in urban areas was higher in terms of stalled economic activities. It reduced consumption with a negative impact on employment generation and security of existing jobs.
- **Reduce inequalities:** Such a scheme would have some redistributive effect and could help reduce inequality in terms of income as well as health and education.
- **Tackle inflation:** There is persistence of higher inflation in urban areas as compared to rural areas, which is negatively affecting the urban poor.
- **Rising urban population:** In comparison to nearly 31% population (Census, 2011), the percentage of urban population is expected to grow above 40% by 2030, thereby increasing the demand for employment further.
- **Uniformity across states:** Although initiatives have been taken in many states, the central government should join in to tackle the issues of division of responsibility of returning migrant workers, pay standards, financial assistance etc.
- **Multiplier effect on the economy:** Money in the hands of people would drive up demand in urban areas and may help establish urban areas as 'engines of growth'.
- **Strengthen infrastructure:** If implemented effectively, it enables people to contribute productively to the creation of useful public goods and services.



However, there would be some **challenges** associated with guaranteeing urban employment, such as:

- It may lead to **increased migration in urban areas**, thereby increasing pressure on the existing infrastructure and amenities.
- Since it would be implemented mostly by **local governments**, their **lack of human as well as financial capacity** would be a major hurdle.
- Deciding the **criterion for employment** in terms of variety of work, range of skills and education levels as well as generating new jobs in urban areas would be difficult. It is also **debatable whether the educated but unemployed workers will take up** these jobs.
- In urban areas, there is no seasonality in either **work demanded or unemployment**. This complicates the design of the scheme unlike the MNREGA where demand for work moves in line with the agricultural cycle and hence is seasonal in nature.

Thus, even though it seems that time has come for a **National Urban Employment Guarantee Act**, various steps would be needed to address the challenges first. These include coordination mechanism between different associated Ministries (Labour, Commerce and Industry, Housing and Urban Affairs, etc.), mobilising investment, simultaneously focusing on rural development to reduce migration etc.

Student Notes:



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