

Unemployment with Inequality – A Major Problem in Indian Labour Market

Rangoli^{#*}

Rangoli357@gmail.com

Christabel Reana Lowden[#]

reanalowden@gmail.com

Laxmi Kumari[#]

Lk2014483@gmail.com

[#]Student, Dept. of Management, Brainware University, West Bengal, India

**Corresponding Author*

Abstract

This paper examines the rising unemployment leading to income inequality in India and assesses the problem in Indian labour market by examining contribution of different sources of income inequality, rising unemployment and labour market situations and devise measures to reduce the situation. Unemployment with income inequality has proved be a threat for Indian economy. The ailing labour market also throws light towards this situation. In recent times unemployment has increased causing a job crisis in the economy. Labour force participation in the labour market especially female's participation has declined over years due to the various factors. Increase in informal employment has increased the gap in income disparity providing explanation to the fact "the rich are richer and the poor are getting poorer" in our economy. The need for urgent action in creating a more job oriented economy that absorbs the productive potential of its working population and raises living standard of its people could not be clearer. The dream of India to be a rich economy requires a strong labour market in order to become a reality.

Keywords: Unemployment, labour force, labour market, income in equality, economy, wage earnings.

Introduction

Unemployment in recent times has spread its roots in the Indian economy reaching to a 45 years high. India has witnessed a steep fall in the GDP associated with declining concentration of income and wealth. Unemployment is affected by the active participation of workers in the labour force. Among two Indians of working age only one who is 15 years or above participate in the labour force and only one in four women of working age 23 joins the labour market. There has been a decline in female labour force participation since 2004 when it was at 42.7%. This decline can be considered to be due to several factors such as staying of girls for long duration in education and delaying their entry in labour market combined with effect of middle income resulting in loss of potential productive participation in labour force. So, in India's labour market, the urgency to create millions of new jobs is not the only struggle. The need to improve the quality of work of those who are caught in low productivity job condition in the present scenario is equally important. Unemployment or productivity and wages mirror the state of job condition in the present scenario. The Periodic Labour Force Survey (PLFS) estimated that in FY18 unemployment rate was at 53% in rural India and 7.8% in urban India making it a total of 6.1%.

Increase in employment leads to increase in wage earnings resulting in an increase in consumer spending and hence, an increase in overall demand in the economy. Since the supply remains fixed in the short term, we see a rise in the price level. Unemployment has severely affected supply demand scenario in India. Supply demand imbalance is a major reason for economic slowdown opening the doors to unemployment. According to economists, government is focusing on measures that cater to the supply side of operation while demand creation has been grossly ignored. Stagnation of

manufacturing sector, dismal performance of automobile sector and bad condition of construction and real estate industries has made the picture of declining labour force very clear.

In this paper, the inter-link among income inequality, unemployment and labour market is also portrayed. The change in one factor affects the other and ultimately the economy. Income inequality has been increasing due to a range of factors such as technological changes which have favoured high skilled workers and increase in labour force participation by low skilled workers. Majority Indians cannot afford to be unemployed. For them earning is compulsory to sustain themselves. Among the working class, informal employment as a share of non-agriculture employment was 68.4% in 2018. Informal employment involves low productivity work with poor wages. This expands the gap in income disparity. 'The lack of reliable estimates on employment in recent years has impeded its measurement and thereby the Government faces challenges in adopting appropriate policy interventions,' wrote the government's Chief Economic Advisor Arvind Subramanian in the 2016-2017 Economic Survey¹ (Dewan and Prakash, 2019, Jha and Dhal, 2019, Dang and lanjouw, 2018, Mehra, 2018, Cahcel and Piketty, 2017, Azan, 2016, Verma, 2016, kaur, 2014, Salian and Gopakumar, 2010)

What can be done or how it can be addressed? The present government should acknowledge the ail of labour market and take measures to address the employment crisis joined by income inequality. A nationwide employment strategy is very crucial to lay down the specific measures to curb this crisis by generating productive employment opportunities. Producing more productive and well remunerated job will absorb more labour, implementation of thoughtful reforms of labour regulations.

The generation of well remunerated job will reduce income disparity leading india towards achieving its dream of being a trillion economy¹ (Dewan and Prakash, 2019, Jha and Dhal,2019, Dang and lanjouw, 2018, Mehra, 2018, Cahcel and Piketty, 2017, Azan, 2016, Verma, 2016, kaur, 2014, Salian and Gopakumar, 2010).

Objective

- To study the rising unemployment leading to income inequality.
- Problem in India's labour market and measures to overcome it.

Methodology

This study is fully descriptive in nature. The data used for the study were gathered from different sources such as journals, articles published in various newspapers and different websites.

Literature Review

In the paper, the authors have reviewed that the unemployment substantially affects the inflation. Though it has been said that unemployment has no significant effect on real GDP, still in our country it plays an important role because a large portion of GDP is arriving from unorganised sector.

The authors have found that there is a negative and significant impact of inflation on unemployment and also concluded that the impact of unemployment on labour market is severe. They have also

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https://cprindia.org/sites/default/files/A%20Clarion%20Call%20for%20Just%20Jobs_Addresssing%20the%20Nationn%27s%20Employment%20Crisis%20by%20Sabina%20Dewan.pdf, accessed on 10/02/2020 on 11 p.m.

analysed the impact of exchange rate on unemployment in India. They made a linear regression model where significant relationship has been framed between unemployment rate, growth rate of gross GDP, exchange rate and inflation rate.

The authors have observed that unemployment is the base of social and financial issues of any economy. According to them India has already recognised that skill development is very much essential for full employment in the labour market. The MUDRA Yojna, PMKVY, DDU, GKY, NRLM, NREGA, NFFWP, SGRY and SGSY are the some important steps taken by Indian government to curb unemployment. But still a lot of youngsters are there who are not taking part in all the programmes because of proper awareness program and literacy problem.

The authors have realised that the monetary inequality, spatial and local inequality are giving a negative impact effect on the poverty vulnerability and mobility in India. The economic growth is declining with lower literacy rate because of less numbers of primary schools in urban areas. The local level inequality (with village, in rural areas) is generating the bulk of overall inequality in India (Dewan and Prakash, 2019, Jha and Dhal, 2019, Dang and lanjouw, 2018, Mehra, 2018, Cahcel and Piketty, 2017, Azan, 2016, Verma, 2016, kaur, 2014, Salian and Gopakumar, 2010)

Research Gap

Developing country unemployment along with inequality with a continuous rising inflation and a serious negative rise in GDP is the major problem in India. The percentage of income arising out of unorganised sector is almost 1/5th of the year which is quite normal in an agro-based economy. From the above literature review, one thing is clear that the trend between inflation, unemployment and inequality is gaining a combined force which is continuously retarding the economical growth in India.

Government has taken many corrective measures in the last ten years to control them but with a country with so much political dilemma and other socio-economic problems the measures have not fulfilled what was expected from them. Illiteracy, low gender ratio are the area which is causing the inequality in the job market.

On the other hand payment lower than minimum wages, less investment of government in unorganised sector, violation of human rights and child labour are the other problems in the employment sector. The previous researchers have found many loopholes in the economic reform system, employability measure and also in inflation measurement system. This paper has found the gap between the unemployment and inequality which should not rise in agro-based developing country like India¹ (Dewan and Prakash, 2019, Jha and Dhal, 2019, Dang and lanjouw, 2018, Mehra, 2018, Cahcel and Piketty, 2017, Azan, 2016, Verma, 2016, kaur, 2014, Salian and Gopakumar, 2010)

Conclusion

A strong institutional collaboration and the three main macro-economic variables (unemployment, inflation, real GDP) should have a positive relation to make some policy happen in the currently affected labour market of India. Demonetisation, GST, behavioural taxation effect on income tax, privatisation of insurance sector and banking are the areas which are affecting the supporting activities of any primary production system of our country. Although the overall development in labour market was reasonably improved after independence (thanks to the Planning Commission of India) but the recent mechanism of NITI AAYOG and NREGA are not sufficient enough to improve the employment growth. From second most prospective economy (after China) India is going to be

declining in the darkness of steep inflation and price instability. This structure in the economy to create substantial jobs, improving infrastructure which in turn may generate employment employing modern technology and creation of employment banks (region wise and age wise) ,are the measures government should take. Farmers need to get easy loans from banks with low interest; crop insurance abolishment of middlemen between farmers and wholesalers , will help our economy the most. Inequality with Caste/ religion/ gender/ nationality (may be CAA and NRC) emerge as the poison in the economy. Further study and research work are needed to make more possible reforms in order to prescribe remedial measures in this context.

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