



# drishti

## Is the Unemployment Crisis for Real?

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(The editorial is based on the article “Is the unemployment crisis for real?” which appeared in The Hindu for 15th February 2019. In this article we will see how to not let the brewing unemployment crisis turn into a calamity.)

**National Sample Survey Office (NSSO) latest labour force survey suggests that unemployment rose to an all-time high of 6.1% last year. This is a very worrying trend.**

The jobs situation in India does not reflect a crisis yet, but this unemployment rate is a matter of serious concern. A crisis is understood as an emergency that demands immediate attention, without which we could see a calamity of sorts. **Though there is no immediate calamity of any kind on hand, there is a deeply insidious problem at work in the form of shrinking employment opportunities, shrinking formal jobs, and a shrinking labour force.**

A populous and demographically young country like India has a lot to gain if the expanding working-age population can join the labour force and be provided with gainful employment. More hands at work can ensure greater prosperity and relatively evenly spread growth.

### Concerns

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- **If India cannot provide employment to its growing working-age population, it does not just miss a chance to become a prosperous country but also risks becoming an unmanageable or unruly country.**
- Unemployed youth, beyond a threshold, can lose hope of a job and can easily stray into becoming antisocial elements.
- **Statistics give us clues about the brewing problem and its insidious nature.** First, we are in the midst of a serious investments deficit. The impact of this fall in investments is visible in shrinking jobs.
- This fall in jobs is not translating into a proportionate rise in unemployment. But it is showing up in a fall in the labour participation rate. A rise in unemployment is bad, but

a fall in the labour participation rate is worse.

- **With education comes the expectation of a 'better' job.** Those who can afford education also tend to be in a position to wait for a job that meets their requirements.
- **The data show that unemployment is higher among the educated, and lower among those with less financial means and education.**
- **The urgent crisis confronting the economy, then, is underemployment.**
  - **Underemployment occurs when workers are unable to find employment that makes use of their qualifications and skills.** For instance, an engineer might be working in a mechanic shop.
  - **Underemployment and/or refers to the sharing of low-productivity work,** as is common in agriculture, for example. Or picture a 16-year-old who spends his mornings selling just enough coconuts to make the bare minimum to survive. And these are just examples of visible underemployment.
- **Persistent underemployment also contributes to the decline in labour force participation rates.** As people grow frustrated with their inability to find a good job, they may stop looking for work and drop out of the labour force altogether.
- Both underemployment and this form of discouragement are a significant loss of productive potential.

### **There also an argument saying what India has is a wage problem.**

- Wage problem is when there is no or very less increase in wages.
- **The furor around the unemployment issue is ill-founded.** Most of the analysis is based on incomplete representations of the labour market. The recent surveys that profess spiralling unemployment are either unverifiable or heavily skewed by sampling biases.
- This narrative raises questions on the political motivations behind these surveys that may intend to change the perception of India's growth trajectory, nationally and globally.
- This problem can only be solved by creating higher-quality jobs to meet aspirations.

### **Way Forward**

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- **India has been creating formal jobs in large numbers.** Further, deliberations based on other proxy databases like vehicle sales, the annual reports of the IT department, and MUDRA loan disbursements help ascertain jobs in large job-creating markets like transport, the professional sector, and small-scale entrepreneurship, respectively. This provides us with a robust methodology of ascertaining employment.
- **There is a need to improve the quality of jobs by improving productivity in agriculture and in enterprises.**
- The government should align education, technical and vocational education and training to market demand and make enduring and **long-term investments in**

**human capital through good-quality education, skills, and on-the-job training, as well as in basic social protection.**

- **Need to improve our labour market information system.** This way, emerging demand for skills are spotted quickly and the necessary training and certifications for the same are created quickly.
- This calls for an agile public-private partnership in capturing demand for skills and following through with quick investments in skill-building to match demand with supply.
- **A related requirement:** jobs and skills planning need not be centralized in New Delhi; it has to be done at the state and district levels, where there is granular information on education, skills and job options. Jobs and skill commissions are best created at the state and district levels, with Delhi only providing the guidelines, the tech infrastructure and funding for them.
- **Another need of the hour is labour market reforms.** Some good moves have been seen over the last few years, with the Apprentices Act being modified to make it more attractive for employers to hire young workers and the extension of fixed-term labour contracts from textiles to all industries in the last budget.
- **Key to employment growth is not the big company or factory that employs thousands of workers, but medium-scale units.** The enterprises-to-jobs multiple is highest for medium-scale units. India needs to nurture and expand its equivalent of the German Mittelstand (Mittelstand commonly refers to small and medium-sized enterprises in German-speaking countries, especially in Germany, Austria, and Switzerland. This can't happen without deep changes to labour laws and access to credit.
- **Smart urbanization is key.** The link between good urbanization and jobs growth is positive, and unless India's urbanization is concentrated in narrower areas and serviced by good infrastructure, job creation will be sub-optimal. Governance in urban areas is decentralized and empowered. Currently, urban development is centralized at the state level, and mayorships are merely ceremonial titles.
- **Finally, there is a large scope for more employment expansion in government—but of the right kind.**
- Despite the general assumption that government is too bloated, the reality is that governments—at central, state and local levels—have a low capacity to employ more people due to their tendency to spend state budgets on freebies (deeply subsidized food, farm loan waivers, etc.) instead of public goods (good policing and legal systems, good schools and hospitals).
- **Once this spending pattern changes, even governments will employ more people. It is an observed fact that as economies move from basic poverty levels to middle and higher income levels, the size of government grows—and so will employment.**