

# Module 1

## Lecture #06

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### Unemployment

#### Learning Outcomes:

- Understand the concept of unemployment
- Explore the methods of measuring unemployment
- Analyze the trends in unemployment in India

#### Introduction to Unemployment

- Unemployment refers to the condition where individuals capable of working are actively seeking employment but are unable to secure suitable jobs.
- An unemployed person is someone who is part of the labour force, and possesses the requisite skills but currently lacks gainful employment.
- Basically, an unemployed person is someone of working age, jobless, able and available to work, and actively looking for a job.

#### Measurement of Unemployment

- The unemployment in the country is commonly calculated using the formula:  
$$\text{Unemployment rate} = \left[ \frac{\text{Number of Unemployed Workers}}{\text{Total Labour Force}} \right] \times 100$$
  - Here, the 'total labour force' includes the employed and the unemployed. Those who are neither employed nor unemployed — students, for example— are not considered a part of the labour force.

#### Types of Unemployment

- *Cyclical unemployment*
  - Cyclical unemployment exists when individuals lose their jobs as a result of a downturn in aggregate demand.
  - When companies experience a reduction in the demand for their products or services, they respond by cutting back on their production, making it necessary to reduce their workforce within the organization. In effect, workers are laid off.  
Example: Unemployment caused by the recession of 2008-2010

- Cyclical unemployment is normally a short-run phenomenon; and are subject to trade cycles
  
- ***Structural unemployment***
  - Structural unemployment occurs when certain industries decline because of long term changes in market conditions
  - Drastic changes in the economic structure, affect either the supply of a factor or demand for a factor of production
  - Structural unemployment is a natural outcome of economic development, technological advancement and innovation that are taking place rapidly all over the world in every sphere
  - For example, as old industries have declined, new industries have emerged, such as higher tech manufacturing, IT, computing, insurance, and internet based companies. However, these new industries may require a different skill set to previous manufacturing jobs, and it is this that can cause structural unemployment
  
- ***Classical unemployment***
  - Classical unemployment is caused when wages are 'too' high.
  - This explanation of unemployment dominated economic theory before the 1930s, when workers themselves were blamed for not accepting lower wages, or for asking for too high a wage
  - Classical unemployment is also called real wage unemployment
  
- ***Seasonal unemployment***
  - Seasonal unemployment exists because certain industries only produce or distribute their products at certain times of the year.
  - Industries where seasonal unemployment is common include farming, tourism, and construction
  - Example: Agricultural sector where the demand for workers is more during harvesting than is required in other months in a year

- ***Frictional unemployment***

- Frictional unemployment, also called search unemployment, occurs when workers lose their current job and are in the process of finding another one.
- There may be little that can be done to reduce this type of unemployment, other than provide better information to reduce the search time.
- This suggests that zero unemployment is impossible at any one time because some workers will always be in the process of changing jobs.

- ***Voluntary unemployment***

- Voluntary unemployment is defined as a situation when workers choose not to work at the current equilibrium wage rate.
- For one reason or another, workers may elect not to participate in the labour market
- There are several reasons for the existence of voluntary unemployment including excessively generous welfare benefits and high rates of income tax

- ***Disguised Unemployment***

- It is a situation in which more people are doing work than actually required
- Even if some are withdrawn, production does not suffer. In other words it refers to a situation of employment with surplus manpower in which some workers have zero marginal productivity
- Overcrowding in agriculture due to rapid growth of population and lack of alternative job opportunities may be cited as the main reasons for disguised unemployment in India

- ***Educated Unemployment***

- Among the educated people, apart from open unemployment, many are underemployed because their qualification does not match the job
- Shortfalls in education system, mass output, preference for white collar jobs, lack of employable skills and dwindling formal salaried jobs are mainly responsible for unemployment among educated youths in India

- ***Technological Unemployment***

- It is the result of certain changes in the techniques of production which may not warrant much labour.
- Modern technology being capital intensive requires fewer labourers and contributes to this kind of unemployment

- ***Casual Unemployment***

- When a person is employed on a day-to-day basis, casual unemployment may occur due to short-term contracts, shortage of raw materials, fall in demand, change of ownership etc.

- ***Chronic Unemployment***

- If unemployment continues to be a long term feature of a country, it is called chronic unemployment.
- Rapid growth of population and inadequate level of economic development on account of vicious circle of poverty are the main causes for chronic unemployment

## **Causes of Unemployment**

- Inadequate Economic Growth
- Increase in Population
- Low Rates of Saving and Investment
- Labor Immobility
- Job Specialization
- Agriculture
- Global Economic Factors

## **Impact of Unemployment**

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## Government Initiatives and Policies

Mahatma Gandhi National Rural Employment Guarantee Act	2005	<p>It is an employment scheme that was launched in 2005 to provide social security, by guaranteeing a minimum of 100 days paid work per year to all the families whose adult members opt for unskilled labour-intensive work.</p> <ul style="list-style-type: none"> <li>The act provides Right to Work to people</li> </ul>
Deen Dayal Antyodaya Yojana - National Livelihoods Mission (NRLM)	2013	<p>The mission of the scheme is          “To reduce poverty by enabling the poor households to access gainful self-employment and skilled wage employment opportunities, resulting in appreciable improvement in their livelihoods on a sustainable basis, through building strong grassroots institutions of the poor.”</p>
National Skill Development Mission	2014	<p>This was launched to drive the ‘Skill India’ agenda in a ‘Mission Mode’ in order to converge the existing skill training initiatives and combine scale and quality of skilling efforts, with speed</p>
Pradhan Mantri Kaushal Vikas Yojana (PMKVY)	2015	<p>To enable a large number of Indian youth to take up industry-relevant skill training that will help them in securing a better livelihood</p>
National Career Service (India)	2015	<p>National Career Service (NCS) project is a Mission Mode Project launched by the Ministry of Labour and Employment (India) Government of India for establishing quick and efficient career related services across the country by revamping the existing nation-wide set-up of Employment Exchanges into IT-enabled Career Centers</p> <ul style="list-style-type: none"> <li>It was launched as part of the government’s focus on providing right skills and generating employment</li> <li>The Career Centres are a modified version of Employment Exchanges which serve as a platform for addressing all career-related needs of the youth and students.</li> </ul>
Pradhan Mantri Mudra Scheme	2015	<p>The scheme aims to enable Micro Finance Institutions (MFIs), Non-Banking financial institutions/Companies (NBFCs), Small Finance Banks, RBRs, Commercial Banks, Cooperative Banks, etc. to provide Low Rate Loans to eligible entities</p> <ul style="list-style-type: none"> <li>One of the objectives of this scheme is to help generate sources of employment and increase the overall GDP by providing micro-enterprises with credit facilities</li> </ul>
Start Up India Scheme	2016	<p>The primary objective of Startup India is the promotion of startups, <b>generation of employment</b>, and wealth creation. The Startup India has initiated several programs for building a robust startup ecosystem and transforming India into a country of job creators instead of job seekers</p>
Pradhan Mantri Rojgar Protsahan Yojana	2016-17	<p>The scheme is aimed at incentivising employers to generate employment, where the Government pays the employers’ Employee Pension Scheme share of 8.33 percent, for new employees for the first three years of their job</p> <ul style="list-style-type: none"> <li>The scheme targets workers who earn wages of less than INR 15000 on a monthly basis. It encourages employers of Small and Medium Enterprises and Micro Businesses to avail the benefits of this project</li> </ul>

## Unemployment Trends

- **Historical Perspective**
- **Current Trends**

## Key Terms

- **Labour Force Participation Rate (LFPR):**
  - LFPR is the percentage of the working-age population (**aged 15 years and above**) that is either employed or unemployed, but willing and looking for employment.
- **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.**

## Assignment

- What should be the way forward for addressing the present status of unemployment in India?