

## **Underestimating the Unemployment Crisis\***

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India is experiencing a job market crisis. Applicants for preferred jobs outnumber vacancies by numbers that make the process a lottery. The qualifications of these applicants far exceed the skills or knowledge required by many jobs. Attempts to influence or rig the appointments process to monetize scarcity are common. And the response to perceived malpractice or suspect policy shifts can be violent, as recently seen in appointments to the railways and the military.

The argument that the crisis afflicts most market economies, including many developed ones, mitigates for some the disquiet the crisis should evoke. But what is missed in that perspective is that the nature and intensity of the jobs crisis is not similar across the board. India seems especially hard hit. What is more, a rather expansive definition of what constitutes employment and varying definitions adopted by different sources makes the picture fuzzy and leads to an underestimation of the problem.

The stylized 'facts' the available data yield are, however, disturbing enough. Despite questions regarding method and coverage, the National Statistical Organisation's annual Periodic Labour Force Survey (PLFS) is the best source of information on employment and unemployment trends. According to the latest report from those surveys, even when a person is defined as employed if he/she worked for at least one hour on at least one day during the 7 days preceding the date of survey (current weekly status), 7.5 per cent of the labour force was unemployed in 2020-21 (July to June). With about 40 per cent of India's 1.41 billion population in the labour force, this implied that about 42 million who were available for work were not employed. If computed on a usual status basis (or based on the activity of a person for a relatively long time during the 365 days preceding the date of survey), the unemployment rate fell to 4.2 per cent. That amounted to around 25 million unemployed on a usual status basis. Around 21 million of these unemployed persons were in the 15-29 years age group. The crisis is not of absent jobs in general, but of employment among the youth in particular. A youthful population swells the number in the age group where they are capable of and wanting to work. But they find it difficult getting into the workforce.

The PLFS is the more recent version of the government's effort to track the employment and unemployment situation in the country. Prior to 2017-18, detailed surveys of the employment situation were undertaken by the official statistical system once in five years. On the grounds that an annual assessment is needed for effective policy making, which has been a complete failure when it comes to employment generation, the government has since 2017-18 launched the PLF surveys, that yield quarterly and annual estimates. Annual estimates are as of now available for the four years ending 2020-21. Since results from these surveys are more comparable, the government has taken credit for evidence that employment has risen over these four years, with the labour force participation rate rising from 35.9 to 39.2 per cent and the unemployment rate declining from 8.9 to 7.5 per cent on a current weekly status basis. The corresponding figures for usual status employment were labour force participation rates of 36.9 per cent to 41.6 per cent and unemployment rates of 6.1 and

4.2 per cent. The aggregate figures do seem to point to improvement, however marginal, on the employment front.

This improvement may seem surprising because of the well-recognised adverse employment generation consequences of India's development path and of policy moves that have made a bad situation worse. Among the many features of the development path that have played a role in determining employment outcomes, three in particular are worth noting. The first is that the non-agricultural sector has proved incapable of absorbing, at least in decent jobs, the multitudes that have had to move out of agriculture because it could no longer serve as the sink for a growing volume of the unemployed. The second is that manufacturing growth has been so disappointing that the structural transition away from agriculture to manufacturing in terms of shares in total GDP and employment, expected in the early stages of development, has remained incomplete in India. The slow growth of manufacturing meant that the much needed shift in employment and worker distribution away from low productivity agriculture to high productivity manufacturing, that could ensure decent non-agricultural employment, did not occur. And finally, though construction and services proved to be the much-needed outlets for India's excess labour force, they proved inadequate to the task of making up for the shortfall in manufacturing. Especially because, the more dynamic, modern services (including software and IT-enabled services) have been characterised by revenue growth that is much faster than employment growth, resulting in lagging employment generation even in India's high growth years led by a services boom. Workers must settle wherever jobs are available, irrespective of pay and the conditions of work.

One consequence of these trends is that 'regular' and 'formal' employment, or employment that is based on a formal contract, offers a degree of security of tenure, includes paid leave, and is associated with some form of social protection is more the exception than the rule. In 2020-21, only 21 per cent of those employed were in regular employment. Another 23 per cent were engaged as casual labourers and 56 per cent were 'self-employed'. For most of these workers, being at work does not mean being employed for most of the days or hours a person is available for work. The poor quality of even the employment afforded to most workers is captured in a range of indicators. Around 64 per cent of regular workers had no written job contract, 48 per cent were not eligible for paid leave, and 54 per cent were not eligible for any social protection. Regular male workers in all occupational categories, who are paid much more than female workers, earned on average between Rs. 18,238 and Rs. 19,103 over 30 days in 2020-21—or around Rs. 608-637 a day. Despite the extreme inequality that characterises the country, that average for the population as a whole is just around two and a half times the income that supports a family at the official poverty line. The corresponding figures for the self-employed were Rs. 11,184-Rs. 11,976 and Rs. 373-399 per day. The average earnings per day, when employed, of a casual worker varied between Rs. 311 and Rs. 327. What is more, in real terms, or after having adjusted for inflation, these earnings have declined between 2017-18 and 2020-21.

The difficulty of finding even a half decent job has discouraged many from seeking work and kept them out of the labour force. Labour force participation rates in India of 58 per cent for males and 25 per cent for females in 2020-21 are striking for two reasons. The first is that those rates are extremely low by global and even South Asian standards (excluding Afghanistan and Pakistan). The second is the appallingly low

participation rates for women, who are forced by patriarchal norms to focus on unpaid work for the household. Given the absolute levels of female participation rates, the evidence that it has risen from 17.5 per cent in 2017-18 to 25.1 per cent in 2020-21 is no cause to celebrate. In fact, as argued below, this is likely the result of household distress.

During the years when the annual labour force surveys have been conducted and published (2017-18-2020-21), the Indian economy moved out of its high growth trajectory, which meant that the poor job-generation record resulting from the weak relationship between output growth and employment growth would have been made worse by the slowdown in GDP growth. This was aggravated by three ‘external’ factors that have devastated the economy during the years when the PLF surveys have been conducted. The first is the damage wrought by demonetization that shrank economic activity and led to closures of firms and loss of livelihoods. The second is the badly designed and poorly implemented Goods and Services Tax, which both imposed compliance costs and set operational constraints on economic agents, with attendant adverse impacts on both production and incomes. The third is the COVID-19 pandemic and the government’s handling of it, characterised by brutal lockdowns and measly stimulus measures, which too severely damaged economic activity and livelihoods. All these shocks affected more severely the “informal” sector, which is where the majority of working Indians are employed.

Given these long- and short-term trends it may appear surprising that the PLFS figures for the four years ending 2020-21 point to an increase in the number of workers and a fall in the unemployment rate. However, those trends may be in keeping with what we should expect in a period when growth has been slowing and economic shocks have devastated large sections of the working poor. In a context in which social security or social protection is more the exception than the rule, an unemployed person must, for survival, rely as a dependent on an already underpaid earning member of the family. Absent that option she or he can only starve. When economic conditions worsen, as they clearly have over the last four years, the ability of earning members to support dependents is considerably eroded. The only option then is for every able person to seek out whatever work is available for however many days, even if the terms are poor. This would imply that in difficult times ‘distress employment’ would rise, inflating the figures on those reported as being in the work force and of those employed, when identified using the rather weak definitions adopted in the employment surveys. This is corroborated by the fact that much of the increase in employment over these four years is of female employment and employment in agriculture. A corollary of the distress driven turn to any available job would be a rise in labour force participation and in the number of workers and a fall in the unemployment rate. This is what seems to be happening in recent years. A similar tendency was observed over 1999-00 to 2004-05—which was a period of extreme distress—when total employment as measured by National Sample Surveys registered an increase of around 60 million.

What this implies is that using aggregate employment and unemployment numbers to assess intertemporal changes in the employment situation in the country are not warranted. ‘Improvements’ in numbers employed and the extent of unemployment may be as much a reflection of distress as they could be of advance, depending on economic circumstances. What is clear as far as the Indian labour market is concerned is that the years of high growth have done little to improve a dismal employment

picture, and the conditions of work have only deteriorated after those heady growth days came to end. The jobs crisis is real.

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