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Economic Growth: A Precursor of better Employment in India

DR. MANJU RANI CHAUDHARY
Associate Professor, Economics
Shashi Bhushan Balika Vidyalaya Degree College, Lucknow

Recently, most countries have persistent Job shortage and Unemployment problem. And apparently, since the employment does not increase while the economy grows, this phenomenon called as 'Jobless Growth'. Due to chronic high unemployment in most countries, it has become as important and imminent question in Economics, how Employment growth is affected by Economic growth. Growth is not a means to an end, it is designed to serve people, promote development and reduce poverty.

Economic growth usually improves employment conditions in a state, but in Indian context it is not seen in early periods. This is because, it observed in the past in spite of GDP increase it created just a few numbers of well-paid jobs, while the number of official workers in the organized sector fell by 0.82%". India's entire workforce increased by 63 million persons between 1999-00 and 2009-10. 22 million of these 44 million became unorganized workers in the organized sector, while the number of official workers in the organized sector fell by 3 million" This shows even good growth indicators were there but unemployment did not lessen. Even while all growth indicators, including the gross domestic product (GDP), imply a strong economic improvement, unemployment in the country continues to rise. While major economic indicators point to a fast rebound, the employment market as a whole is still struggling. A lack of job possibilities may stifle long-term economic growth by lowering general purchasing power, which would lead to a drop in consumption demand.

Creating jobs and incomes is crucial for development. Most developing countries struggle with high unemployment or underemployment. Many people can barely live from what they earn. This is the reason not only creating new jobs is important, but also improving incomes and working conditions for existing jobs, is hugely important. Besides the higher unemployment rate, CMIE data also indicated that there has been a rise in the labour force participation rate. This means more people are actively looking for jobs. The fact that unemployment is on the rise when more people are looking for work is not a healthy sign for long-term economic growth. Even as GDP growth rates have risen, the relationship between growth and employment generation has grown weaker over time, the report said. This gap has increased even further over the years, the report said referring to data from the 1970s and 1980s, when GDP growth of between 3% and 4% increased employment by 2% per annum. In the 1990s, post liberalisation of the economy, this slowed down to 1% or even less. The ratio of GDP growth to employment growth is now less than 0.1.

The existence of a positive or negative, higher or lower employment elasticity of economic growth, can be explained by the type of economic growth (extensive or intensive), and also as a result of the influence of some factors such as the institutions specific to the labour market, relative cost of labour, the micro and macroeconomic context, technological progress, working time including part-time work, etc.

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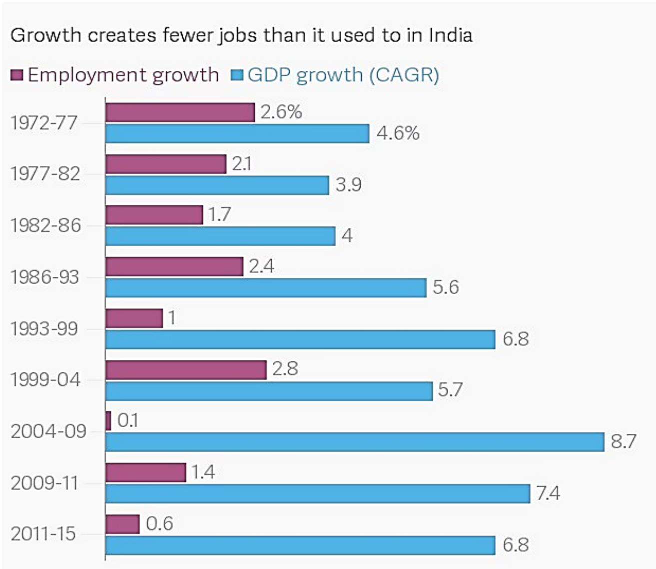

No other major economy has been expanding as fast as India lately, beating both China and the US. The countries in which economic growth was accompanied by an increase in productivity as well as in employment growth differentiate themselves by their contribution to the economic growth process. Secure jobs with social benefits and fair pay offer a way out of poverty, which explains why employment is a key pillar of development. Another important thing is improved infrastructure and a more effective financial systems and education institutions which facilitates the establishment and growth of companies that create jobs. The income generated as a result boosts the economy and employment.

But beyond the headlines lies the grim reality of rising unemployment. The nation of 1.4 billion people isn't creating enough jobs for its growing workforce, despite promises made by government to make it a priority.

Output is increasing as a result of pandemic-related government spending while the private sector sits on the fence, not sure of the conditions for new investment. Meanwhile, disruptions caused pandemic-related and rising inflation are making it harder for everyone to survive.

Lack of job opportunities may stifle long-term economic growth by reducing purchasing power, resulting in a drop of consumption demand. India's macroeconomic challenges continue to be stagnant economic growth and high unemployment. Latest available data collected by the Labour Bureau, and several faculty surveys initiated in last few years, employment growth in India shows a drop/decline from 2012 to 2016, may be for the first time in independent India. Unemployment in India is attributed to the negative development of economic activities, the substitution of labour by capital, and an increase in workforce supply. India was facing these challenges as early as the 1980s when the country was operating under a 'one-sector growth model' an initiative taken in the 1990s, to curb the problem of rising unemployment and stagnant growth, but the implications of these policies were not up to expectations. However, it has been found that the unidirectional relationship between unemployment and economic growth, with causality running from real GDP to unemployment, have been negative.

Over the years in India, the contribution of employment has declined and that of productivity increased in the growth of GDP, so that during the last decade 80% of growth was accounted for by productivity increase and only 20% by Employment growth. Long term employment growth in India has been about 2 per cent per annum but has declined to about 1.5 per cent during the last decade, when GDP growth has accelerated to around 7.5%. Services, which have been the major source of recent growth have particularly seen a sharp decline. The economies of developing and emerging markets have grown faster than industrialised countries in recent decades.

This has been facilitated by deeper integration into global trade and a sharp rise in foreign direct investment. Trade and direct investment between developing and emerging markets themselves have also risen sharply in recent years. Generally, recent studies show that between economic growth and employment there is a positive and strong relationship, meaning that economic growth generates new jobs, but of different intensity from one period to another and from one country to another. This reflects the different response of the labour market to the economic growth process.

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Emphasis has to be on 'productive' and 'remunerative' employment, the new employment generated has to be at increasing levels of productivity in order that it does not lag behind and perpetuate poverty or poverty generating nature. In other words, economic growth should result from a suitable combination of employment growth and productivity growth.

It implies that employment oriented growth in a country like India would have, of necessity, to be at a high rate. Also, economic growth alone is not sufficient to bring about a sustainable increase in all our well-being. Social peace, self-determined living as well as a clean and healthy environment are crucial factors of development alongside material prosperity, and they can be endangered by unrestrained economic growth. It is because of why growth from a development perspective means qualitative growth.

The unemployment rate in India is up from about 5% to 7% in last five years, according to the Centre for Monitoring Indian Economy (CMIE), it is exacerbated by Covid-19 lockdowns. The labour force participation rate or legal working age population has dropped to just 40% from 46% in last six years, India's economic growth failed to create enough job opportunities, CMIE.

India has the advantage of youth median age 30 but will start aging in the coming years. If they get old before being able to have enough and support every dependent well, that would have repercussions for the $3.2 trillion economy. To sustain growth and attract global investors, India needs to ensure there's a trained workforce for industry. There's also the potential for social unrest due to the desire to do well, India needs to create at least 10% increase in new non-farm jobs by 2030.

To create jobs on a mass scale India needs to boost manufacturing which hinges on creating infrastructure, removing red tape and reviving investor sentiment. Since the beginning of India's economic reforms, the central question has been whether economic growth stimulates the unemployment rate or the unemployment rate itself is a stimulus for economic growth. Furthermore, Okun's law, which describes the relationship between these two variables, is well-known in the economic literature.

As an economic expansion progresses, output growth will be determined by the combined rates of growth in the labour supply and labour productivity. As long as growth in real gross domestic product (GDP) exceeds growth in labour productivity, employment will rise. If employment growth is more rapid than labour force growth, the unemployment rate will fall. This long-run relationship between the two economic variables was most famously pointed out in the early 1960s by economist Arthur Okun.
If the rate of GDP growth falls below the rate of labour force growth, there will not be enough new jobs created to accommodate all new job seekers. As a result, the proportion of the labour force that is employed will fall. Put differently, the unemployment rate will rise. If the rate of output growth exceeds the rate of labour force growth, some of the new jobs created by employers to satisfy the rising demand for their goods and services will be filled by drawing from the pool of unemployed workers. In other words, the unemployment rate will fall.

It is very difficult to manage the economy in high rate of unemployment situation. Demand and supply of labour force is the part of labour market which is affected by increasing and decreasing of employment. Existing of demographic conditions and movement of a country significantly influence the balance of labour force market regarding the supply of labour force. Overproduction also increases the best unemployment, it reduces the prices of commodities which necessitates reducing the workers, which increase unemployment. Manufacturers in the case of low demand of product in market, drop the price; windup their operations and labour force is shifted from the employed to the unemployed. Geographical immobility is another reason of unemployment. One place shows surplus labour as

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compared to another place (insufficient labour) and labour force refuse to move from one region to others.

Based on the findings of the study, it can be inferred that economic growth has a negative impact on unemployment rate. The finding is in line with the Okun's law which explains the negative relationship between economic growth and unemployment. The focus should be on boosting the economic growth.The relationship between a country's unemployment rate and the growth rate of its economy has been discovered by Okun. According to Okun' Law 1% percentage point increase in unemployment is related to 2% point decrease of real the GDP. There are other reasons which contribute to faster decrease or increase of GDP compared to unemployment. Keynes (1936) described that the unemployment arise due to deficiencies in aggregate demand over certain periods in the business life cycle so it is very difficult to create the more jobs for people who is interested in doing work. These types of demand are called cyclical and involuntary demand because it is related to seasonal. In seasonal demand organization provide some jobs for the people.

The upward mobility of small and midsize firms matters because it influences the degree of competitive pressure to which large firms are subjected. The higher such pressure, or contestability, the greater the likelihood that only the most efficient and high-performing firms will survive at the top. In some other emerging economies, it is harder for big firms to stay at the top. To achieve higher, system-wide productivity, India would need the companies to scale up become bigger which might require more capital but this this will be a way out for more employment generation and productivity.

India may go on to achieve it by targeting 6 areas to reform which can raise productivity and competiveness. Introduce sector-specific policies to raise productivity in a)Manufacturing, b)Real estate, c)Agriculture and d)Food processing, e)Retail, and f)Healthcare, along with this Unlock land supply to reduce the cost of residential and industrial land use, Create flexible labour markets with stronger social safety nets and more portable benefits, Reduce commercial and industrial (C&I) power tariffs through new business models in power distribution, Monetize government-owned assets and increase efficiency through privatization of state-owned enterprises, Improve the ease and reduce the cost of doing business, Channel more household savings to capital markets, Reduce credit intermediation costs, Streamline public finances to allocate capital more efficiently.

To start with A clear and sharp vision, is required by the central government in alignment with the business community. To be successful reform across multiple years, an institutional body could guide through the process under the able leadership of a constitutional post, with the right level of empowerment, including for resource allocation, and technical- and domain-specific expertise.

All the State governments will need to set their visions and blueprints to address key pro-growth priorities, varying accordingly state wise depending on local endowments, such as agricultural resources, educated professionals, and port-proximate land.

India's corporate world or business leaders would need to raise the bar of aspirations and commit to productivity growth through a set of innovative business ideas, bearing a long-term value creation mind-set coupled with a strong performance-oriented culture, both of these create stakeholder value in the long term. A set of winning capabilities are essential if firms are to emerge as large, high-growth, globally competitive businesses. These include customer-centric innovation that focuses on developing expertise in next-generation ideas and greater localization in India; operational excellence and scalable platforms that can cut unnecessary costs; an embrace of automation and emerging AI technologies; the ability to win in discontinuities, including by disregarding established business practices and models to solve problems, and fostering creativity and nimbleness using well-executed mergers, acquisitions, and

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partnerships to help scale up and the ability to build a strong trust-based brand to attract capital, customers, and employees.

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