

AN ANALYSIS OF EMPLOYMENT, ECONOMIC GROWTH AND POVERTY REDUCTION IN INDIA

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ABSTRACT: *Poverty and unemployment are the two most challenging socio-economic issue for India. Poverty and unemployment have their close association with economic growth. Productive employment creation could be considered as the most important weapon to cater the problem of poverty. However, there are two-way causal relationships between unemployment and poverty reduction. People are poor because they are unemployed and vice-versa. Therefore, we needed bi-modal strategy for the reduction of poverty and unemployment. Unfortunately, we are failing continuously to reduce desired poverty and unemployment. Recent experiences indicated that while economic growth is just a necessary condition for poverty reduction because it depends on pattern, source, and strategy of growth and its distribution. Productive employment has a critical role in that context. Some countries of East and South East Asia (ESEA), e.g. the republic of Korea, Malaysia, Indonesia, and Thailand have their successful story of high rates of growth along with higher rates of poverty reduction thanks to productive employment in 1980s and 1990s. Therefore we need such an innovative and indigenous growth pattern, policy, programme, income distribution and will power to reduce poverty and give job to every Indian to sustain and increase their livelihood. This study would be based on secondary data which collected from various authentic sources such as RBI bulletin, CSO, and NSSO.*

Keywords: *Poverty, unemployment, productive employment, pattern of growth, distribution of Income.*

Introduction

Economic vulnerabilities were a gift of British. To find with poverty, starvation, and unemployment were difficult task for the government at the time of Independence. Acute shortage of infrastructure was obstacle to achieve warranted economic growth. The agriculture was principal source of livelihood for the masses of India. Contribution of the secondary and tertiary sector in GDP was meager. Although, India has gained some momentum to growth during four decade after achieve economic liberty from England. Nevertheless, this was not enough to tackle socio economic problems of poverty and unemployment. However, population growth was very high which critical to raise PCI. These problems are remained even after the LPG era- an era of high economic growth. Now were expecting double-digit growth rate in near future. Nevertheless, the problem of poverty and unemployment is still worrisome. This era is termed as “jobless growth” by World Bank.

‘The economy is doing fine, but the people are not.’ It shows trade-off between economic growth, unemployment and poverty reduction. The interrelationship between economic growth, poverty and employment has long been matter of debate and controversy. The trickle-down theory has failed now. Only growth is not enough to generate employment and reduce poverty. The incidence of growth on employment on poverty and employment depends upon multiple factors and dynamics. Source and pattern of growth, strategy and policies are important. Employment-led growth strategy has impact on poverty reduction. In case of India, its high of growth has low propensity to employment. Formal sector creates fewer jobs than informal sector. This is due to change in composition of GDP. The source of growth is matters. More than 60 percent growth comes from less labour intensive tertiary sector. While manufacturing sector contributes only 16 percent and has larger propensity to employment than services. Primary sector has been continuing as high employment sector. Number does not matter to reduce poverty and unemployment even in the naturally rich nation. **Melmed; et al, (2011)** concluded that there is no straightforward relationship between economic growth, employment and poverty reduction. What we could be learned from country experience are diverse, context matters. **Islam (2004)** observed that employment is a critical player to reduce poverty but the countries have been experience different trends in employment generation even after achieving higher rate of growth. **Mehta, et al; (2011)** highlighted that chronically poor people in India are wage earners, whose jobs are insecure and low paid. Further, he said that low wage and insecure employment has been increasing more rapidly than higher wage and more secure jobs in both rural and urban areas. Therefore, the trajectory from growth to employment to poverty reduction is not automatic. **Ghosh and Chandrasekhar (2015)** observed that economic growth and employment generation in India is an old problems and new paradox. According to them, it has long been confronted issue - to ensure decent livelihood with what type of employment pattern along with development strategy. The paradox is indeed new: the fact that aggregate output growth rates have accelerated but not generated much employment. They argued several reasons for this paradox i.e. the impact of trade liberalization on the pattern of demand and services within the country, technological progress and financial liberalization that puts constraints on fiscal capacity of India. A report of the **World Bank (India’s Employment Challenge: Creating Jobs Helping Workers, 2010)** has noted that excess rigidity in the formal manufacturing labour market and the labour regulation have been creating disincentives for jobs creation. The report presented an estimate, according to which the ‘industrial disputes act’ has caused about three million less jobs to be created in formal sector manufacturing. This estimate is, based on data for the period 1956-1997. We analyzed recent trends, challenges and solution of growth, poverty and employment and nexuses between them. **Papola (2013)** concluded that conventional growth models incorporate capital but not labour as the determining variable. An alternative way look at growth is to treat it a function of growth of employment and productivity. Growth is, derived from either or both. A balance between the two is essential, especially in labour abundant low productivity economy of India. Over the year, the contribution of employment has declined and of productivity increased in growth of GDP, so that during the last decade 80 percent growth was accounted by productivity increase and only 20 percent by employment growth. **Kapila (2013)**, through the light on issue -that the recent experience with employment growth presents a mixed picture. If we focus on the most recent period, 1999-00 to 2004-05, there appears to be acceleration in employment growth compared with the preceding period which

is consistent with expectations given the acceleration in GDP growth. However, looking at longer term trends, this acceleration in employment growth disappears and in any case unemployment rate has increased throughout.”

Objectives of Study

- I. To understand the interdependencies among growth, employment and poverty reduction in India.
- II. To analyze the recent trend between growth, employment and poverty reduction in India.
- III. To suggest the conceptual framework for inclusive growth through poverty reduction and employment creation.

Methodology and Data Sources

This paper has been analyzed the trends, opportunities, challenges and future prospects of growth, employment and poverty reduction in India. The work has used explorative method to draw inferences on the basis of previous literatures and done trends analysis, to show the short term as well as long-term variations exists in the variables taken for the study purpose. Research work based on secondary data. For this study, data has been collected from various websites - mygov.in, indiastat.com; ILO, Labour Bureau Report, Economic Survey, NSSO, CMIE, and others reports and publication.

Analysis

An empirical research has suggested that there is variant relationship between growth and poverty reduction as experienced by different country. The developments in employment and labour markets are critical agents to influence poverty reduction outcome. Quality and intensity of employment, sectoral composition and source of growth play their critical role in this nexus. Empirical evidence is available in support of the proposition that similar rates of output growth can be associated with different rates of poverty reduction (Islam, 2006 a, for example). While there can be a variety of reasons for the variation in the poverty reducing effect of economic growth, one important factor is the employment content of growth.

Trade-off of high growth and low employment in India

Following table-1 provides GDP growth, employment growth, productivity growth, elasticity of employment with respect to GDP since the early 1970s. It believed that a high output elasticity of employment generally ensures growth is egalitarian.

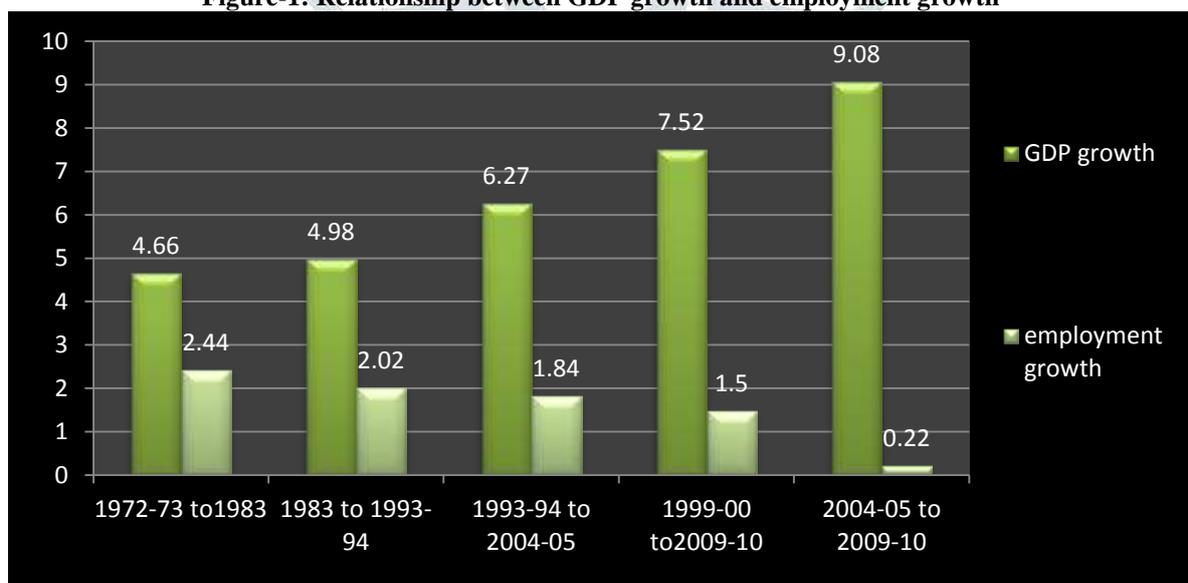
Table.1

Periods	GDP growth (in %)	Employment growth (in %)	Productivity growth (in %)	Employment elasticity w.r.t. GDP
1972 to1983	4.6	2.44	2.22	0.52
1983 to 1993-94	4.98	2.02	2.96	0.41
1993-94 to 2004-05	6.27	1.84	4.43	0.29
2004-05 to 2009-10	9.08	.22	8.86	0.02

Source: derived from Papola (2012).

From table, it is clear that GDP growth has been continuously increases to 9.08 percent in 2004-05 to 2009-10 from 4.66 percent in 1970s. While employment growth has decreases continuously to 0.22 during the period 2004-05 to 2009-10 from 2.44 in 1970s. The figure 1 shows a negative relationship between GDP growth and employment growth.

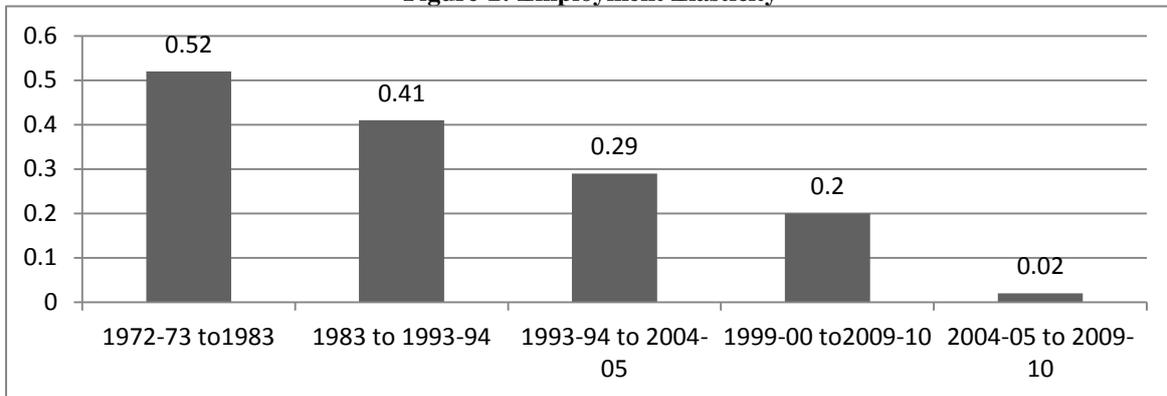
Figure-1: Relationship between GDP growth and employment growth



Source: Papola (2012)

Employment elasticity (EE) also declined continuously from 0.52 in the 1970s to 0.02 in the 2009-10. It was 0.41 in 1980s, which further decreases 0.29 in 2000.

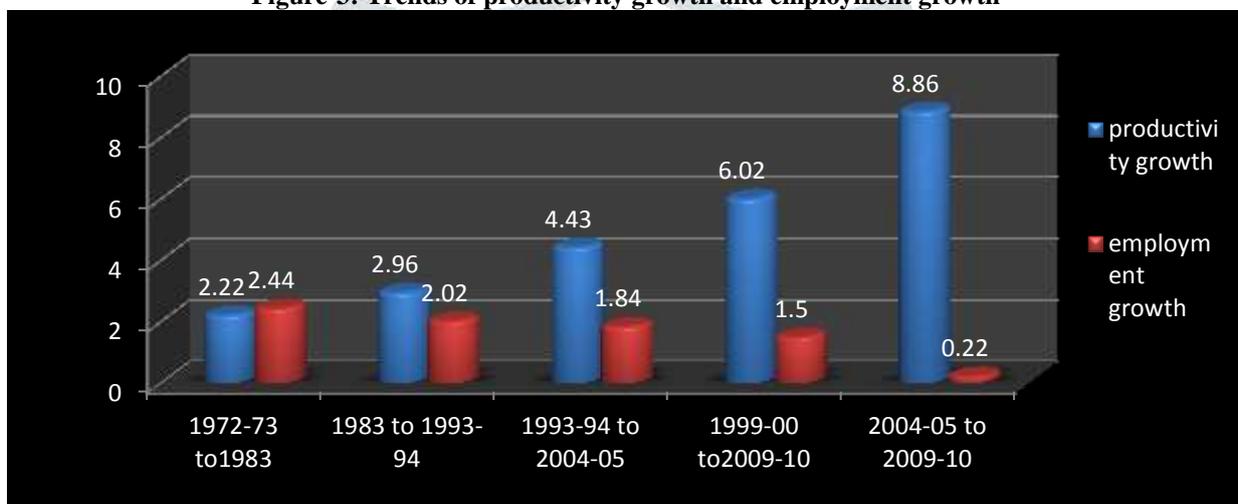
Figure-2: Employment Elasticity



Source: Papola (2012)

There is also wide gap between productivity growth and employment growth. GDP growth mostly increases due to productivity factor not by employment growth. This episode displayed in figure-3. Productivity growth increase dramatically from 2.22 percent to 8.86 percent in 2009-10 in contrast to employment growth.

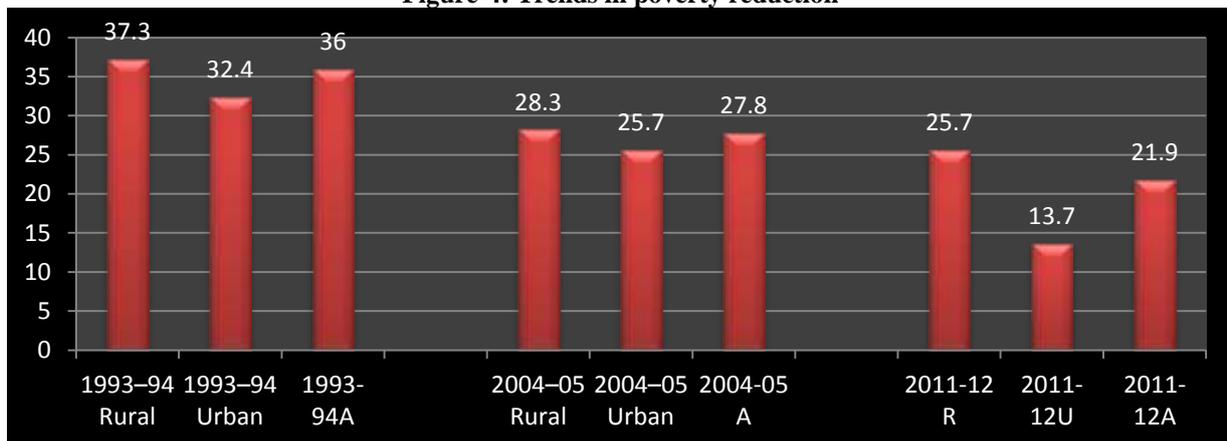
Figure-3: Trends of productivity growth and employment growth



Source: Papola (2012)

Overall productivity is increasing particularly in the formal sector but new employment is being created in the low productivity sector. Employment growth and elasticity have declined for the tertiary sector has declined. In the last two decades, employment was generated more in construction sector, trade, hotels, transport and storage. In 1993-94, rural poverty was 37.3 percent and urban poverty was 32.4 percent. While, overall rate was 36 percent. Poverty in rural, urban and all India were 28.3 percent, 25.7 percent and 27.8 percent respectively. Further it reduced consequently to 25.7, 13.7, and 21.9 percent for rural, urban, and all India. Overall reduction in poverty during the period of 1993-94 to 2004-05 was 8.2 percent, which further reduces to 5.9 percent in 2011-12. Urban poverty reduced more than rural poverty during the period of 1993-94 to 2011-12, accounted 18.7 and 11.6 percent, respectively. Growth has significant impacts on urban poverty reduction due to increase of informal economy.

Figure-4: Trends in poverty reduction



Source: Census (2011) & Planning Commission.

The poverty reducing effect of growth in manufacturing can decline when the scope for further drawing surplus rural workers into sectors that are more productive is exhausted. This is because there often is internal segmentation between “more” and “less productive” manufacturing jobs in middle-income countries. Industrial restructuring towards high productivity manufacturing is a key to continued poverty reduction in middle-income countries. In sum, clearly, not all growth will have equal impacts on poverty reduction. The poverty reducing impact of growth depends on its employment and productivity intensity and shifts from low to higher productivity activities. This, of course, cannot happen unless high productivity activities expand; otherwise, rural migrants to urban areas could expand the size of the low-income, urban informal sector.

Primary sector is a labour intensive. Its productivity is less than other sector. Less productivity of primary sector has negative effect on the level of poverty reduction, mostly for the rural people. Traditionally, it is major source of livelihood for lower strata. Primary sector has significant impact on poverty reduction through employment generation, if proper policies, incentives, institutional reforms have to done. However, it is still lack of appropriate management of allied sector of agriculture- sericulture, pisciculture, aviculture, horticulture, viticulture, animal husbandry.

Secondary sector has significant impact on poverty reduction, if labour-intensive sector promoted mainly manufacturing sector. It is helpful to reduce urban poverty and inequality. Recently it has been showing labour substitution effect to raise productivity through employing more capital. Raised productivity has not much contributed to job creation. However, MSMEs sector’s productivity is less than corporate sector but its low productivity effects negatively to reduce poverty. Overall, secondary sector has competitive disadvantage in the world market. Therefore, our demand and limited expansion of manufacturing sector has not been creating desired jobs. Hence, poverty reduction affected.

Tertiary sector is a major contributor in GDP of India but it is more capital intensive. It has competitive advantage in the world market. Its incidence on employment generation is less. It has benefited only skilled and educated people in India. Therefore, its incidence on poverty reduction is also less.

Economy as formal sector, contributed 2/3rd in GDP but with least job creation. In contrast, to informal sector that has major contribution in employment. However, it is only 1/3rd portion of GDP. Informal sector is effective than formal sector in respect to poverty reduction. While overall GDP growth is higher especially during post liberalization period along with increased productivity but poverty reduction through employment- led strategy is difficult task.

CONCLUSION

The lack of comprehensive development strategy is obstacle to combat poverty and unemployment. Since during early development process we failed to develop the our manufacturing sector. As we jumped directly to services sector, on the one hand we got high GDP growth while low job creation on the other hand. Number of other factors were also responsible for the low employment elasticity of services sector, such as, growing automation, psychological intention of getting only government job, employability index, and complex labour market regulation.

The global economy is expected to witness a shortage of young population of around 56 million by 2020, India will be the only country with a youth surplus of 47 million as highlighted by Report of Labour Bureau, 2014. In order to reap these opportunities, we need to change our development pattern. Instead of focusing growth it is required to go with employment. Therefore, we need a comprehensive strategy of manpower planning to utilize our demographic dividends, because only productive labour could contributes more in country’s progress. Increased productivity of labour would stop the labour substitution in higher productive sector on the one hand, while it will increases comparative advantage of informal sector on the other hand.

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