

Chapter 6: Unemployment

GSEB Class 12 Economics — Complete Board Exam Notes

INTRODUCTION

In recent years most nations of the world are facing economic and social problems like poverty, unemployment, inflation and depression. Developed and developing countries have economically developed but could not attain full employment. In India, on one hand high population growth rate and on the other hand insufficient economic development made the problem of unemployment more serious.

6.1 MEANING OF UNEMPLOYMENT

In common parlance, unemployment is a situation where a person is willing to work but doesn't get work. Unemployment is not only a problem of labour but other factors of production can also be unemployed. But commonly unemployment is seen in relation to labour only.

"A person can be called unemployed only when he is willing to work but is not able to find work." — Prof. Pigou

In short, unemployment is: **"A situation where a person is ready and capable of working at current wage rate but does not get work."**

The term unemployment is understood in terms of supply of active work force. Active work force supply includes people in the **age group of 15 to 64 years**. Unwilling unemployment (voluntary) is NOT a problem. Compulsory/unwilling unemployment IS the problem. An unemployed person is economically dependent and cannot live in society with dignity.

Raj Krishna Committee (2011-12) — Four Measures of Unemployment

(1) Time:

If any person has willingness and capacity to work but does not get work for more than **28 hours a week**, he is said to be intensively unemployed. Those employed for more than 28 but less than 42 hours in a week are considered less intense unemployed.

(2) Income:

When a person gets very less income which cannot solve the problem of his poverty, then from income point of view, he is poor. Example: a person required **₹30,000/-** per month for family but earning only **₹15,000/-**.

(3) Willingness:

When a person is eligible of getting good job but does not get job as per eligibility and accepts lower cadre job with very less income — he is underemployed. E.g., if a C.A. has to work as clerk.

(4) Productivity:

When a labourer is working with less than his actual productivity then production is less than productive capacity. E.g., a person can make 20 meter clothes in a day but gets a job where he can make only 10 m.

6.2 TYPES OF UNEMPLOYMENT

6.2.1 Open Unemployment (Full Unemployment)

Those individuals who are ready to work at current wage rate and possess qualifications too, but do not get any job are said to be fully unemployed or openly unemployed.

This type is seen more in cities than in villages. Open unemployed people often migrate from villages to cities. Open unemployment can be seen more among the **age group of 15 to 25 years**. People with open unemployment cannot work and cannot get work — they become a burden and reason for low productivity.

Three methods to get data: (1) Registration in Employment Exchange Centres (2) Sample Survey for Labour Supply (3) Census

6.2.2 Underemployment

When labourers cannot utilise their capabilities fully and for certain period accept less capable job — it is called underemployment. Example: a labourer in industry or agricultural land gets work only for 5 hours instead of 8 hours = underemployed.

In rural India, seasonal unemployment in agricultural sector is a type of underemployment. Labourer in agriculture sector gets work only during sowing and harvesting season and is unemployed the rest of the time. Also, many individuals accept degraded job below their degree — e.g., a computer engineer working in a garage.

6.2.3 Disguised Unemployment (Hidden Unemployment)

Disguised unemployment means **hidden unemployment**. Very common in developing economies like India.

"In any activity if too many persons are employed at the given level of technology, and when a few persons are removed from work, the total production does not change, then there exists disguised unemployment."

In other words: when agriculture sector has **zero marginal productivity** of labour — those extra labourers are disguisedly unemployed. They visibly do not seem to be unemployed but because the marginal productivity is zero, there is disguised unemployment.

Example: If 10 hectare land is to be optimally used then maximum 5 labourers can be employed. But due to unavailability of work elsewhere, 3 more family members also join the same work. Even after they join, the total production does not increase at all — so the other 3 labourers are disguisedly unemployed.

■ **Disguised Unemployment: Marginal Productivity of Labour = ZERO. Extra workers appear to be working but contribute NOTHING to output.**

6.2.4 Cyclical Unemployment (Depressive Unemployment)

In a capitalist type of economy, investors and saving class are distinct, creating disequilibrium. Economy faces prosperity and sometimes depression. During prosperity: high investment, production, income, employment. When economy faces depression: reduction in demand for goods and services → industries reduce production or shut down → many labourers are retrenched.

America experienced severe depression during **1929-30** — this was known as the **Great Depression**. In India, the diamond industry faces this type of unemployment. Solution: state should invest in productive and developmental activities to increase effective demand.

6.2.5 Frictional Unemployment

When in production process, because of changes in demand or production or due to change in taste and preferences or new technology, new goods enter the market and unemployment arises — this is called **frictional unemployment**.

It is for a **short term**. In a developed nation when old production system is replaced by a new production system, labourers working in old units remain unemployed till they learn the work according to the new technology.

Example: When smart phone replaced old mobile phones, the labourers engaged in production, sales and service of old mobile phones became unemployed. This is frictional unemployment.

Type	Meaning	Example
Open Unemployment	Ready, qualified but no job at all	Educated youth cannot find any job
Underemployment	Employed below capability; fewer hours	CA working as clerk; farmer works only 5 hours
Disguised	Too many on same work; marginal productivity = 0	5 farmers on land that needs only 3
Cyclical	Due to trade cycle depression; lack of demand	Great Depression 1929-30; diamond industry
Frictional	Due to technology change; short term	Old mobile phone workers after smartphones arrived

Table: Types of Unemployment — Summary

6.3 CAUSES OF UNEMPLOYMENT

Information regarding unemployment is published by Planning Commission, Central Statistical Organisation, National Sample Survey and Employment Exchange Reports. Bhagwati Committee was established to study unemployment. At the end of first FYP, 53 lac people were unemployed which increased to 304 lacs at the end of fifth FYP and 348.5 lacs at the end of ninth FYP.

6.3.1 High Rate of Population Growth:

In India, each year there is increase in population by 1.70 crores — more than total population of Australia. With this much increase in population and lack of employment opportunities, unemployment will rise. The rate of growth of employment is much lesser than the population growth rate in India.

6.3.2 Slow Rise in Employment Opportunities:

"Economic growth has remained jobless growth." In first three decades of planning, India attained 3.5% economic growth. Rate increased to 7.6% in 10th FYP and 7.8% in 11th FYP but still number of unemployed kept increasing. Green revolution remained limited to certain areas and sectors other than agriculture observed slow growth.

6.3.3 Low Rate of Savings and Investments:

Per capita income increased at a lower rate than national income. Due to low per capita income and expenses in satisfying basic needs, savings and investments remained at a lower rate. Because of low rate of investment in industry, agriculture or other sectors, not much employment could be created.

6.3.4 Capital Intensive Production Technique:

There is scarcity of capital and abundance of labour in India. Labour intensive techniques should have been adopted but from the second FYP, India adopted heavy and basic industries with capital intensive technique. Bhagwati Committee and Venkatraman Committee both recommended less mechanisation.

6.3.5 Lack of Vocational Education:

India's education system only provides bookish knowledge and produces clerks. Even after acquiring education, a person is incapable of self employment. Skilled labourers are few because of lack of vocational education. Present education failed in mental and physical formation of human being.

6.3.6 Lack of Manpower Planning:

In India during planning period manpower is not planned rightly. Every year lakhs of educated youth obtain degrees but lack knowledge and training required in present economic development — they are unemployed even after being educated. This is called "**Drain of Brain**" — Indian intelligence moving from India to abroad (similar to Drain of Gold during British rule).

6.3.7 Inefficiency of Public Sector:

After independence, public sector was given more importance than private sector. But the quantity of employment generation estimated from public sectors was not able to generate more employment because of its low productivity. Private sector development was neglected → less employment generation → unemployment

increased.

6.3.8 Negligence Towards Agriculture Sector:

India is an agricultural country and most population resides in villages. More emphasis in economic development policy was given to other sectors than agriculture. As agriculture was given less importance, it could not develop effectively. Green Revolution advantage is enjoyed by few states like Punjab, Haryana. So overall employment could not be created in agriculture sector.

6.3.9 Low Mobility of Workers:

Due to social reasons, family relations, language, religion, casteism, culture, lack of information, transportation, and housing problems — mobilisation of workers is restricted. People with higher education are not interested in going to rural areas even if they get employment. Attraction towards urban life does not show readiness among people to go to rural areas.

6.3.10 Lack of Infrastructural Facilities:

In rural areas because of lack of transportation, proper roads, education, health and electricity facilities — employment generation is low. Industrialists do not wish to establish industries in rural areas due to lack of continuous and required electricity, resulting in no new employment. Also: lack of national employment policy, lack of conducive environment for development of industries and trade, under utilisation of natural resources.

6.4 MEASURES TO REDUCE UNEMPLOYMENT

6.4.1 Population Control:

Effective steps for population control must be taken. Rate of population growth will come down, high rate labour supply will reduce, number of job seekers will reduce, resources will become surplus. Rate of capital investment and employment opportunities will increase. Productive age group (15 to 64 year) can be placed appropriately.

6.4.2 Increase in Rate of Economic Development:

One of the constructive solutions of reducing unemployment is by increasing the rate of economic development. In initial years of planning, rate of economic development was as low as 3 to 3.5%. If economic development is continuously increased at higher rate, employment opportunities can also develop at higher rate. Coordinating various sectors, efforts should be made to increase capital investment between public, private and cooperative sector.

6.4.3 Employment Oriented Planning:

In present situation, employment oriented planning is very important. State has encouraged consumer goods and labour intensive industries, small and medium scale industries, business and trade, animal husbandry, dairy development. These industries require less capital and generate more employment.

6.4.4 Employment Oriented Education:

Present education system is responsible for unemployment. Vocational education in trade, commerce, business, agriculture and other fields is needed. New education policy of 2015 emphasizes collaboration with industries for vocational education and employment generation.

6.4.5 Development of Cottage and Small Scale Industries:

Cottage and small scale sector have capacity to create employment with low investment. With same capital investment, **small industries can create 7.5 times more employment than big industries**. India is capital scarce and labour intense — cottage and small scale industries are the best alternative.

6.4.6 Extension of Infrastructural Facilities:

If Government extends services like education, health, housing, electricity, roads, business training centers, employment can be made available to individuals nearer to their residences. With development of infrastructure, new employment opportunities will increase in agriculture and allied sectors.

6.4.7 Speed and Expansion of Green Revolution in Agricultural Sector:

According to P.C. Mahalanobis: investing **■1 crore** in agriculture sector can employ **40,000 people** and increase production by 5.7%, whereas in big industries investing **■1 crore** only employs **500 people** and increases production by 1.4%. Agriculture sector can create more employment than industry. Important complementary activities: minor and major irrigation, soil conservation, mix farming, forest development, planning for more harvest, modernisation of land, agro-based rural industries.

According to Dr. M.S. Swaminathan, if development is encouraged towards agriculture sector, many times more employment can be created.

6.5 STATE PROGRAMS TO SOLVE UNEMPLOYMENT PROBLEM

In 1951, five year plans started in India. It was thought that planning and economic development would solve unemployment — but in the first four five year plans, this thought proved to be wrong. From the **fifth five year plan onwards**, various employment oriented schemes started:

- Integrated Rural Development Programme
- Food Against Work
- Jawahar Rojgar Yojana
- Nehru Rojgar Yojana
- Suvarna Jayanti Gram Swarajgar Yojana
- Suvarna Jayanti Sheher Rojgar Yojana
- Training to Rural Youth for Self Employment

(1) Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA):

On February 2006, National Rural Employment Guarantee Act was started with the objective of providing employment to rural people residing in backward districts. The name NREGA was changed to MGNREGA on 2nd October, 2009. Government declared 2nd February as "Employment Day". Key features:

- At least one person from each family is given guarantee of getting employment for **100 days in a year**.
- 1/3rd employment is reserved for females under this scheme.
- Minimum wages for physical labour; wages to be provided within **7 days**.
- Labourer should be given employment within **5 km from their residence**. Beyond 5 km: 10% extra wages.
- Labourers working under this scheme are provided **job cards** valid for five years.
- If labourer does not get employment, then he is paid employment allowance.

(2) Pandit Deendayal Upadhyay Shramev Jayate Yojana (PDUSJY):

Started on **16th October, 2014**. Objectives: provide health and security along with good management, skill development and welfare to labourers of unorganised sector and to develop conducive environment for industrial development.

(3) Deendayal Upadhyay Gramjyoti Yojana (DUGJY):

Instead of the earlier Rural Electrification programme, this programme is started with an objective of providing **constant 24 × 7 electricity services** in rural areas.

(4) Deendayal Upadhyay Gramin Kaushalya Yojana (DUGKY):

Started on **25th September, 2014**. Main objective: provide employment to youth between age group of **18 to 35**.

(5) Prime Minister Agricultural Irrigation Programme:

Started on **1st July, 2015**. Objective: **"Water to every field"** — to increase field productivity, optimum use of available resources and planning of irrigational facilities to agricultural areas.

EXERCISE — MCQs

(1) A person is capable, willing and ready to work at current wage rate but not getting work is said to be

Options: (a) unemployed (b) poor (c) surplus (d) worker

✓ **Answer: (a) unemployed**

(2) Compulsory nature of unemployment is seen in which context of labour supply?

Options: (a) Active (b) Passive (c) Children (d) Elders

✓ **Answer: (a) Active — compulsory unemployment is seen in the context of active labour supply (15-64 age group)**

(3) Who presented four measuring rods of measuring types of unemployment?

Options: (a) Raj Krishna (b) Mahalanobis (c) Keynes (d) Rodan

✓ **Answer: (a) Raj Krishna — Shri Raj Krishna Committee Report 2011-12 gave four measures.**

(4) Which type of unemployment arises due to lack of effective demand?

Options: (a) Frictional (b) Seasonal (c) Cyclical (d) Disguised

✓ **Answer: (c) Cyclical — lack of effective demand during depression causes cyclical unemployment.**

(5) Which type of production technique increases unemployment?

Options: (a) Labour intensive (b) Capital intensive (c) Agriculture oriented (d) Education oriented

✓ **Answer: (b) Capital intensive**

Key Answers — One Line

(1) Explain meaning of unemployment.

Unemployment is a situation where a person is ready and capable of working at current wage rate but does not get work. (Compulsory unemployment is the real problem, not voluntary unemployment.)

(2) Which type of unemployment is seen in developed nations?

Cyclical and Frictional unemployment — both caused by trade cycle fluctuations and technology changes. These are short-term in nature.

(3) Define disguised unemployment.

In any activity if too many persons are employed and when a few are removed from work, the total production does not change — there exists disguised unemployment. Marginal productivity of labour = zero.

(4) Which depression is called world's great depression?

The depression of 1929-30 in America is called the World's Great Depression. Its effect was felt by many countries of the world.

(5) From where is information regarding unemployment in India obtained?

From Planning Commission, Central Statistical Organisation, National Sample Survey, Employment Exchange Reports, and Bhagwati Committee.

(6) Which age group is called productive age group?

15 to 64 years is called the productive age group / active work force.

(7) Which industries should develop to solve the problem of unemployment?

Cottage and small scale industries should develop — with same capital, small industries create 7.5 times more employment than big industries.

(8) Which slogan is given by Prime Minister Agricultural Irrigation scheme?

"Water to every field" — objective to increase field productivity and planning of irrigational facilities.

(9) When was Pandit Deendayal Upadhyay Shramev Jayate Yojana started?

PDUSJY was started on 16th October, 2014.

■ BOARD EXAM QUICK REVISION — CHAPTER 6: UNEMPLOYMENT

1. Unemployment = Person willing and capable to work at current wage rate but does not get work.
2. Productive age group = 15 to 64 years. Active labour force includes people in this age group.
3. Prof. Pigou's definition: 'A person can be called unemployed only when he is willing to work but is not able to find work.'
4. TYPES OF UNEMPLOYMENT: Open | Underemployment | Disguised | Cyclical | Frictional
5. Disguised Unemployment = Marginal Productivity of Labour = ZERO. Removing extra workers doesn't reduce output.
6. Cyclical Unemployment = Due to trade cycle depression (lack of effective demand). Great Depression 1929-30.
7. Frictional Unemployment = Short-term; due to technology change or change in demand. E.g., smartphone replaced old mobiles.
8. Raj Krishna Committee (2011-12) gave 4 measures of unemployment: Time, Income, Willingness, Productivity.
9. Bhagwati Committee studied causes and magnitude of unemployment in India.
10. 10 CAUSES: Population growth | Slow employment | Low savings | Capital intensive technique | No vocational education | No manpower planning | Inefficiency of public sector | Agriculture neglect | Low worker mobility | No infrastructure.
11. P.C. Mahalanobis: ■1 crore in agriculture = 40,000 jobs, 5.7% production increase. ■1 crore in big industry = 500 jobs, 1.4% increase.
12. Dr. M.S. Swaminathan: development of agriculture creates many times more employment.
13. MGNREGA: Started February 2006. Renamed 2nd October, 2009. 100 days minimum employment per family. 1/3 reserved for women. Job cards valid 5 years.
14. PDUSJY: 16 October 2014 — health, skill development, welfare for unorganised sector workers.
15. DUGKY: 25 September 2014 — employment for youth 18-35 years.
16. PM Agricultural Irrigation: 1 July 2015 — 'Water to every field.'
17. Small scale industries create 7.5 times MORE employment than big industries with SAME capital.
18. Drain of Brain = Indian intelligence (talent) moving from India to foreign countries.

Notes prepared from GSEB Class 12 Economics Textbook — Complete Board Exam Coverage | Textbook-accurate, line-by-line.