

# Causes of Unemployment in India

## **Cause 1: Lack of the Stock of Physical Capital:**

The major cause of unemployment and underemployment in developing countries like India is the deficiency of the stock of capital in relation to the needs of the growing labour force.

In the modern world, man by himself can hardly produce anything. Even the primitive man needed some elementary tools like the bow and arrow to engage in hunting for the earning of his livelihood.

With the growth of technology and specialization, he needs much more capital with which to engage in productive activity. If he is an agriculturist, he needs a piece of land and also a plough, a pair of oxen, seeds and some food grains and other necessities of life to sustain himself during the period of sowing to the reaping of the harvest.

In the industrial sector, he needs factories to work in and machines to work with. All these aids to production belong to the community's stock of capital. Now, if the working force grows faster than the stock of capital of a country, the entire addition of labour force cannot be absorbed in productive employment because not enough instruments of production would be there to employ them. The resulting unemployment is known as the long-term or chronic unemployment.

A nation's stock of capital can be enlarged by increased investment which, in the absence of any unutilized resources, requires additional saving on the part of the community. The concern of the classical economists was to ensure that the rate of capital formation was kept sufficiently high so that employment opportunities were successively enlarged to absorb the additions to the working force of a country as a result of population growth.

This is also the problem that developing countries like India are facing today. In recent times, the labour force in India has been growing at around 2 per cent per year, yet our rate of investment expressed as a percentage of our stock of capital has not been

growing at a fast enough rate so as to keep pace with the growth of population.

As a result, the country's ability to offer productive employment to the new entrants in the labour market has been severely limited. This manifests itself in two things: first, the prevalence of large-scale open unemployment in the urban areas as evidenced by the statistics of employment exchanges; second, it manifests itself in the form of open unemployment in the rural areas as well as disguised unemployment in agriculture.

### **Cause 2: Use of Capital-Intensive Techniques:**

An important factor responsible for slow growth of employment has been the use of capital-intensive techniques of production, even in consumer goods industries where alternative labour-intensive techniques are available. Even before 1991, under the Industrial Policy Resolution 1956, the development of consumer goods industries was left open for the private sector.

However, private sector prefers to invest in highly capital-intensive plants and equipment on the basis of technology developed in labour-scarce western countries. It is argued by them that the alternative labour-intensive techniques have low productivity and low surplus-generating capacity.

However, the important reason for the use of capital-intensive techniques has been the availability of cheap capital. Even firms in modern small industry sector which were expected to generate large employment opportunities have also tended to use capital-intensive techniques of production.

Thus, Prof. J.C. Sandesara states, "The availability of cheap capital has tended to encourage the modern small-scale industries sector to over-capitalize and use more capital-intensive methods of production and thus reduce employment potential".

In agriculture, reckless mechanization of various agricultural operations despite the existence of surplus labour has reduced the

employment-augmenting effect of new high-yielding technology involving the use of HYV seeds, fertilizers and pesticides. This has prevented the generation of enough employment opportunities in rural areas.

Now, a pertinent question is why capital-intensive techniques are used in industries despite the condition of labour abundance in the economy. First reason is the relatively low price of capital.

**Relatively low price of capital has been caused by:**

(a) Lower rate of interest,

(b) Liberal depreciation allowance on capital investment permitted in the taxation system of the country,

(c) Relatively cheap capital equipment imported from abroad.

Secondly, higher wages of labour in the organised sector relative to their productivity under pressure from trade unions. Thirdly, rigid labour laws also discourage the employment of labour. It is difficult to retrench labour even when it is not required in case an industrial unit becomes sick and proposes to close down or exit.

Fourthly, Research and Development (R & D) activity has not been adequately directed to discover and identify labour-intensive appropriate techniques to be used in industries which, though labour-intensive, have also reasonably good productivity.

**Cause 3: Inequitable Distribution of Land:**

Another cause of unemployment prevailing in the developing countries like India is inequitable distribution of land so that many agricultural households have no adequate access to land which is an important asset for agricultural production and employment.

Sub-division of land holdings under the pressure of rapid population growth since 1951 has further reduced access to land for several agricultural households. As a result many persons who were self-employed in agriculture have become landless agricultural

labourers who suffer from acute unemployment and underemployment.

**Cause 4: Rigid Protective Labour Legislation:**

Another reason for the slow growth of employment in the organised sector has been the existence of unduly rigid protective labour legislation which makes it very difficult to retrench a worker who has been employed for 240 days.

Labour legislation is so rigid that it is even difficult to close down the unit and quit the industry. Thus, this excessively protective labour legislation induces private entrepreneurs to prefer the maximum use of capital in place of labour.

**Cause 5: Neglect of the Role of Agriculture in Employment Generation:**

An important factor responsible for slow growth of employment opportunities is the neglect of agriculture for generating employment opportunities. The general perception, as existed in the first three five year plans in India (1951-65) as well as in the theoretical models of growth for dualistic economies such as Lewis' "Economic Development with Unlimited Supplies of Labour" was that agriculture already contained surplus labour and it was required to withdraw this surplus labour from agriculture and employ them in the modern industrial sector.

By the mid-sixties it was realised that not to speak of employing new entrants to the labour force year after year, the modern industrial sector could not absorb productively even a fraction of the then existing unemployed persons in the foreseeable future.

Agriculture though containing surplus labour can generate employment opportunities if proper strategy for its development is adopted. For instance, the empirical evidence shows that on an irrigated hectare of land the number of man-hours employed is almost twice that on the un-irrigated hectare.

Irrigation requires more labour input for watering the fields, but also since output per hectare on irrigated land is much higher; more

labour is used for harvesting and threshing the crop. Besides, irrigation makes the adoption of double cropping possible which greatly raises the employment potential of agriculture.

It is worth noting that new agricultural technology, commonly called green revolution technology, involving the use of HYV (High Yielding Varieties) seeds, greater use of fertilizers and pesticides along with water is highly labour absorptive. What is equally important, this new green revolution technology is size-neutral, that is, it can be equally well adopted by small farmers.

Further, HYV seeds are of short duration type, that is, they mature in a short time so that they make multiple cropping more feasible. The use of double or multiple cropping greatly enhances the opportunities of employment generation in agriculture. The experience of Punjab, Haryana and Western U P. is a shining example of large employment generation in agriculture.

What is needed for the generation of large employment opportunities in agriculture is that the new green revolution technology should be widely diffused and adopted in the backward and lagging agricultural regions in India.

### **Cause 6: Lack of Infrastructure:**

We have explained above lack of physical capital with which labour is equipped for productive employment as the cause of unemployment prevailing in the developing countries like India. By capital we generally mean machines, plant and equipment, factory buildings etc. But a similar factor responsible for huge unemployment prevailing in these countries is lack of infrastructure such as roads, power, telecommunications, highways, irrigation facilities in agriculture. Inadequate availability of infrastructure is a great obstacle for the generation of opportunities for productive employment.

It follows from above that unemployment and underemployment prevailing in India and other developing countries is not cyclical Keynesian type of unemployment caused by decline in aggregate demand. Unemployment and underemployment in India are caused

by more basic structural factors such as lack of capital, use of capital-intensive technologies, lack of access to land for agricultural household, lack of infrastructure, rapid growth of population resulting in large annual increments in labour force year after year.