
UNIT 4 UNEMPLOYMENT

Structure

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4.1 INTRODUCTION

In the earlier two units, you have learned about population, poverty and inequality. This unit gives a detailed discussion on unemployment. As you know, unemployment is a common word nowadays. You might have noticed that in spite of education, there are people without jobs. Widespread and persistent unemployment is a serious macroeconomic problem, both in developing and developed countries. Unemployment brings, in its wake, a large number of socio-economic problems in many different ways. The negative impact of unemployment is diverse and acute. In addition to lowering output and income, it can also lead to rising income inequality, loss of human capital and skill, ill health and mortality, migration, loss of motivation for future works, loss of human relations, and social life. Therefore, it is very important to understand the nature and effects of unemployment, and to design appropriate policies and programmes to combat it. In this unit, you will be introduced to the concept, definition, and measurement of unemployment. You will also be able to analyse the trend and magnitude of unemployment, and assess efficacy of different policies and programmes, initiated by state and central governments, to reduce unemployment.

After studying this unit, you should be able to

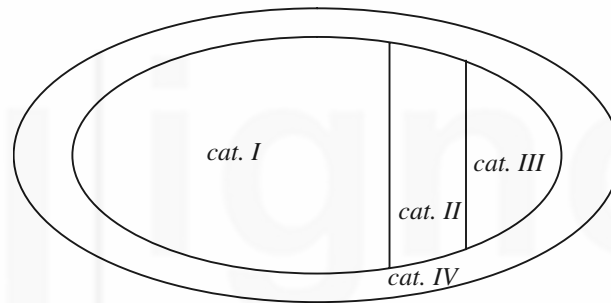
- explain the meaning and types of unemployment
- narrate the nature, magnitude, and dimensions of unemployment
- delineate the possible causes and the impact of unemployment and the unemployment situation in developed countries and India
- analyse the different policies and programmes that address the problem of unemployment in India.

4.2 UNEMPLOYMENT: MEANING AND TYPES

4.2.1 Meaning of Unemployment

You might have heard about unemployment and some of your friend and relative might not have got the job even after being sufficiently educated. To most, the word, unemployed means being without work. Now, let us define unemployment in another way and ask, what is unemployment? Unemployment is defined as the condition of being unemployed, or, it refers to the number or proportion of people in the working population who are unemployed (have no jobs). An unemployed person is one who is an active member of the labour force and is able to and seeks work, but is unable to find work during a specified reference period (a week or a month or a year).

Before we discuss the issue of unemployment in greater detail, we must define a few other key terms associated with unemployment. Let us divide the total population of a country into four categories as illustrated below.



Category I is comprised of all those economically active people, say between 15 and 65 years, who are currently employed during a specified reference period (a week, or a month, or a year).

Category II represents all those economically active people, say between 15 and 65 years, who are currently unemployed during a specified reference period (a week, or a month, or a year), but are capable of, and are looking for employment.

Category III represents all those people say, between 15 and 65 years, who are neither employed nor are seeking any employment, in other words, those who are not in the labour force.

Category IV represents all those people aged below 15 years and above 65 years, and other people excluded from the above mentioned three categories for any reason.

The total population of a country is the sum of all these four categories: I + II + III + IV; and labour force is defined as I + II.

The unemployment rate is defined as the percentage of the labour force that is unemployed, which can be represented as:

$$\text{Unemployment} = \left(\frac{\text{II}}{\text{I} + \text{II}} \right) \times 100$$

4.2.2 Types of Unemployment

Having studied the meaning of unemployment, now let us discuss the various types of unemployment. Broadly, unemployment can be divided into two types:

voluntary, and involuntary, unemployment. Voluntary unemployment arises due to reasons that are specific to an individual, while involuntary unemployment is caused by a large number of socio-economic factors such as structure of the market, level and composition of aggregate demand, government intervention, and so on. Thus, there are different kinds of unemployment depending on the nature, causes, and duration of unemployment. Let us now discuss various types of unemployment. Unemployment is broadly classified in following categories.

Structural unemployment: This kind of unemployment occurs when there is any change in consumer demand and technology in the economy. For instance, when computers were introduced, many workers were dislodged because of a mismatch between the existing skills of the workers and the requirement of the job. Although jobs were available, there was a demand for a new kind of skill and qualification. So, persons with old skills did not get employment in the changed economic regime, and remain unemployed. This is called structural unemployment.

Cyclical unemployment: When there is an economy-wide decline in aggregate demand for goods and services, employment declines and unemployment correspondingly increases. Therefore, it is sometime referred to as 'demand deficient unemployment'. For instance, during the recent global slowdown, in late 2008, many workers around the globe lost their jobs.

Frictional unemployment: This type of unemployment refers to a transition period of looking for a new job, for different reasons, such as seeking a better job, being fired from a current job, or having voluntarily quit a current job. The period of time between the current to a new job is referred to as frictional, or temporary unemployment.

Seasonal unemployment, a type of frictional unemployment, occurs in specific activities or occupations which are characterized by seasonal work. An example of seasonal unemployment is the joblessness during non-cultivation in rural areas.

Natural rate of unemployment: The sum total of frictional and structural unemployment is referred to as the natural rate of unemployment.

Open unemployment: Open unemployment arises when a person, voluntarily or involuntarily, keeps himself or herself out of consideration for certain jobs.

It is important to note that the type and nature of unemployment differs significantly in developing and developed countries. Unemployment in developed countries arises due to the lack of effective demand and/or economic slowdown, recession, or depression. In developing countries, unemployment occurs largely due to a lower demand for labour and/or inadequate employment opportunities in the economy. Such a situation occurs due to the subsistence nature of agriculture, a low industrial base and the small size of the tertiary sector. Let us now discuss the various concepts of unemployment applicable to developing nations, including India.

All developing countries, including India suffer from structural unemployment, which exists both in **open** and **disguised** forms. The problem in developing countries can better be summarized as **underemployment** - a partial lack of work, low employment income, and underutilization of skills or low productivity,

rather than unemployment as discussed above. Thus, **underemployment** describes the condition of those who work part time because full time jobs are unavailable or employed on a full time basis but the services they render may actually be much less than full time (**disguised underemployment**) or who are employed in occupations requiring lower levels of skills than they are qualified for (**hidden underemployment**). A related concept is that of **working poor** - those who actually work long hours but earn only a low income below the poverty line. In other words, working poor is defined as a situation when individuals or households, in spite of being employed, remain in relative poverty due to low levels of wages and earnings.

Up till now, you have studied the meaning and types of unemployment. Now, answer the questions given in Check Your Progress-1.

Check Your Progress 1

Note: a) Answer the following questions in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1) What do you mean by unemployment?

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2) Define the following types of unemployment and give examples for each of these types from your own experience

i) Structural unemployment

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ii) Cyclical unemployment

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iii) Frictional unemployment.

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4.3 MEASUREMENT OF UNEMPLOYMENT

Measurement of unemployment is a difficult task. Now, in this section, you will learn about various methods of measuring unemployment. In India's statistical system, the most comprehensive and reliable data on employment and unemployment are compiled by the National Sample Survey Organization (NSSO). Based on different reference period (a year, a week, and each day of a week), NSSO provides four different measures of employment and unemployment. The following are some methods of measuring unemployment.

- i) **Usual Principal Status Unemployment (UPS):** this is measured as the number of persons who remained unemployed for a major part of the year. The persons covered by the survey may be classified into those working and/or available for work in their principal activity, and those working and/or available for work in a subsidiary activity, that is, a sector other than their principal activity. Hence, within the usual status concept, the estimates are now derived on the usual principal status as well as the usual principal and subsidiary status basis. The usual status unemployment rate is a person rate and indicates chronic unemployment, because all those who are found usually unemployed in the reference year are counted as unemployed. This measure is more appropriate to those in search of regular employment, e.g., educated and skilled persons who may not accept casual work. This is also referred to as 'open unemployment'.
- ii) **Usual Principal and Subsidiary Status Unemployment (UPSS):** Here person is considered unemployed, if besides UPS, those available but unable to find work on a subsidiary basis during a year.
- iii) **Current Weekly Status Unemployment (CWS):** this refers to the number of persons who did not find even an hour of work during the survey week.
- iv) **Current Daily Status Unemployment (CDS):** this refers to the number of persons who did not find work on a day, or on some days, during the survey week.

Rates of unemployment differ based on different concepts and these concepts have their own advantages and limitations and, therefore, they have different implications for analysis and policy formulation. The UPS and UPSS measure reflect only long term unemployment spells. The CWS measure captures shorter unemployment spells, but ignores unemployment for less than a week. The CDS measure is the most inclusive, capturing both open as well as partial unemployment. In Section 4.6 we will discuss the trends and magnitude of unemployment based the alternative measures given above.

4.4 CAUSES OF UNEMPLOYMENT

Now that we have studied the meaning and types of unemployment, we will look at the causes of unemployment. Some of the causes of unemployment, you are commonly aware, are over population and lack of work. Some of the important causes of unemployment are: the high rate of population growth and

the consequent increase in labour force; low rate of economic growth, lack of adequate employment opportunities in non-agricultural activities; generation of seasonal employment, or lack of full time employment in agriculture; low labour absorption capacities in manufacturing and tertiary activities; shifting from labour-intensive to capital- and skill-intensive production techniques; expansion in education system, and so on. .

Let us now briefly elaborate some of the above causes.

- Low and fluctuating levels of economic growth do not generate adequate employment opportunities, as needed. Besides, rates the sectoral composition of growth is also an important determinant of unemployment.
- Excessive dependence on agriculture and slow growth of non-farm activities limit employment generation.
- Use of capital-intensive methods and production practices not only dislodges currently employed persons, but also slows down the generation of new employment opportunities.
- Lack of a clear and well developed human resource policy or manpower policy, may lead to a mismatch between the need and availability of relevant skills and training, which results in unemployment, especially of youth and educated.
- Rapid growth in population, lack of employability due to poor health and nutrition also lead to unemployment.
- Lack of investment and infrastructure development are factors that do not generate adequate levels of employment in the economy, and consequently unemployment rises.
- Inadequate availability of unemployment insurance and public employment programmes also cause a rise in unemployment.

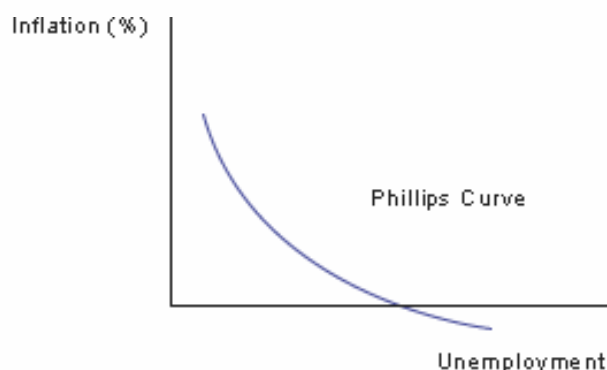
How these factors are operating to bring changes in the nature and magnitude of unemployment will be discussed in the following sections. It is important to mention here that one or more than one of the above factors may operate simultaneously to impact unemployment rates.

Unemployment and Inflation Relationship

In economic literature there are many different accounts of labour market theory. All labour market outcomes have been explained by theoretical arguments with the help of three main forces: the market forces of demand and supply; institutional forces in the form of government, union, and; sociological factors such as cultures, class, customs, and family background. With this framework, different schools of thought - the classical, the neoclassical, and the institutional schools - emerged in labour economics literature. They were based on relative importance and the working of these forces to bring about specific labour market outcomes.

The neoclassical school focused primarily on the operation of market forces in determining the wages and allocation of labour, and considered other institutional and social factors as given. On the contrary, the institutional school emphasized

the role of institutional forces, such as internal labour markets and unions, and sociological factors, such as class and discrimination, segmentation, and stratification in the labour market. The institutional school, thus, puts emphasis on the unique features of the labour market, and explains how these forces abate the role of market forces. So, given the different theories and school of thoughts in labour economics literature how would one explain the problem of unemployment?



Alternative theoretical explanations on the problem of unemployment have been put forward by different schools of economic thought. Keynesian economic thinking focuses on lack of effective demand for goods and services which cause unemployment in an

economy, and argues that government policies, both monetary and fiscal, could be used to increase aggregate demand, thus, increasing economic activity and reducing unemployment and deflation. On the contrary, the Classical and Neoclassical Schools of thought have focused on labour market rigidities, such as minimum wage and other regulations as explanations for unemployment in an economy. But these explanations may not be adequate enough to explain the problem of unemployment given the heterogeneity of this problem in terms of nature, pattern, magnitude, causes of unemployment, and their impact.

However, in this context, it is desirable to understand an important theoretical exposition of the relationship between unemployment and inflation discovered by A.W. Phillips. He established an inverse relationship between unemployment and inflation, showing a downward sloped curve, popularly known as the Phillips curve (see the diagram). He explained the trade off between unemployment and inflation, and how any attempt by governments to reduce unemployment was likely to cause increased inflation.

4.5 DIMENSIONS OF UNEMPLOYMENT IN INDIA

After studying different types of unemployment, their nature and magnitude, , it is important to understand the various dimensions of unemployment in terms of location, gender, levels of education, age, and region.

4.5.1 Unemployment by Gender and Location

Table-1 presents the all India unemployment rates disaggregated by gender and by location (rural and urban). Two important features emerge from this table. First, the urban unemployment rates are higher than rural areas. Second, female unemployment rates are significantly higher, compared to their male counterparts. In terms of all four measures, the above two findings hold true.

Table 4.1: Unemployment Rate of Labour Force (in per cent) in terms of Gender and Residence Status: 1983/2004-05

Work Status	Year	Rural			Urban		
		Male	Female	Persons	Male	Female	Persons
1	2	3	4	5	6	7	8
UPS	1983	2.1	1.4	1.8	5.9	6.9	6.1
	1987-88	2.8	3.5	3.1	6.1	8.5	6.6
	1993-94	2.0	1.4	1.8	4.5	8.3	5.3
	1999-00	2.1	1.5	1.9	4.8	7.1	5.3
	2004-05	2.1	3.1	2.5	4.4	9.1	5.3
UPSS	1983	1.4	0.7	1.2	5.1	4.9	5.1
	1987-88	1.8	2.4	2.0	5.2	6.2	5.4
	1993-94	1.4	0.8	1.2	4.0	6.2	4.4
	1999-00	1.7	1.0	1.5	4.5	5.7	4.7
	2004-05	1.6	1.8	1.7	3.8	6.9	4.5
CWS	1983	3.7	4.3	3.9	6.7	7.5	6.8
	1987-88	4.2	4.4	4.3	6.6	9.2	7.1
	1993-94	3.0	3.0	3.0	5.2	8.4	5.8
	1999-00	3.9	3.7	3.8	5.6	7.3	5.9
	2004-05	3.8	4.2	3.9	5.2	9.0	6.0
CDS	1983	7.5	9.0	7.9	9.2	11.0	9.5
	1987-88	4.6	6.7	5.2	8.8	12.0	9.4
	1993-94	5.6	5.6	5.6	6.7	10.5	7.4
	1999-00	7.2	7.0	7.1	7.3	9.4	7.7
	2004-05	8.0	8.7	8.2	7.5	11.6	8.3

Source: Computed from NSS reports on employment-unemployment for various rounds.

There are significant differences between rural and urban unemployment situations. While urban unemployment may be due to slow growth of industrial employment and rapid expansion of education, rural unemployment is largely due to failure of agriculture. In rural areas, a large part of unemployment is agricultural unemployment, which may be categorized as seasonal unemployment and disguised unemployment. On the contrary, urban unemployment occurs due to faster urbanization caused by migration from rural areas to urban areas. Educated unemployment constitutes a large section of urban unemployment, as we will analyze in the next section.

4.5.2 Regional Pattern of Unemployment

Regional variations in the unemployment scenario in India are another important issue to be discussed. There are significant interstate variations in terms of availability of employment opportunities, depending on the state level economic growth, resource endowment, infrastructure facilities, flow of investment, and so on. Table-2 presents large differences in the unemployment rates among different states. In rural areas, for example, in terms of CDS definition, out of seventeen major states in seven states (i.e., Andhra Pradesh, Kerala, Maharashtra, Orissa, Punjab, Tamil Nadu, West Bengal), the unemployment rates are higher than the all India rate. Similarly, in urban areas, Assam, Bihar, Kerala, Maharashtra, Orissa, Tamil Nadu, and West Bengal witnessed a higher incidence of CDS unemployment compared to the national average. Interstate variations in unemployment rates lead to interstate labour migration in the Indian economy.

Table 4.2: State Level Unemployment Rates: 2004-05

States	Rural Persons				Urban Persons			
	UPS	UPSS	CWS	CDS	UPS	UPSS	CWS	CDS
1	2	3	4	5	6	7	8	9
Andhra Pradesh	1.3	0.7	3.8	10.9	4.0	3.6	5.2	7.9
Assam	3.6	2.6	4.1	6.5	8.2	7.2	8.1	9.0
Bihar	1.6	1.5	3.1	6.8	6.9	6.4	8.2	10.0
Gujarat	0.8	0.5	1.5	4.1	3.1	2.4	3.7	4.7
Haryana	3.3	2.2	4.3	6.2	4.8	4.0	5.5	6.9
Himachal Pradesh	4.7	1.8	4.0	5.7	4.0	3.8	4.5	4.9
Jammu & Kashmir	2.6	1.5	4.2	5.6	5.3	4.9	5.3	6.0
Karnataka	1.1	0.7	1.9	6.7	3.1	2.8	3.6	6.0
Kerala	15.8	10.7	15.6	25.6	19.9	15.6	18.0	25.2
Madhya Pradesh	0.7	0.5	2.7	5.6	3.1	2.8	4.4	6.4
Maharashtra	1.5	1.0	4.4	9.3	4.9	3.6	6.4	8.8
Orissa	6.4	5.0	7.4	10.2	14.2	13.4	13.8	15.0
Punjab	5.8	3.8	4.8	9.7	5.6	5.0	6.2	7.5
Rajasthan	1.5	0.7	3.1	4.4	3.4	2.9	4.1	6.1
Tamil Nadu	2.1	1.2	3.0	15.1	3.8	3.5	4.9	8.6
Uttar Pradesh	1.1	0.6	1.9	3.7	3.9	3.3	4.9	6.3
West Bengal	3.8	2.5	5.7	11.2	7.5	6.2	7.5	10.5
All India	2.5	1.7	3.9	8.2	5.3	4.5	6.0	8.3

Source: NSS Report No. 515.

4.5.3 Unemployment and Education

The level of education is an important correlate of unemployment. There is a general belief that levels of education and unemployment rates are inversely related. But, the figures presented in Table-3 convey completely contrasting views. Unemployment rates are higher for the educated workers. This is true for both male and female workers, as well as in rural and urban areas.

Table 4.3: CWS-Unemployment Rate of Labour Force for 15 Years and Above by Level of Education (in per cent)

Levels of education	Rural Male			Rural Female		
	1993-94	1999-00	2004-05	1993-94	1999-00	2004-05
1	2	3	4	5	6	7
Illiterate	1.8	3.0	2.7	2.2	2.7	2.5
Literate & up to primary	1.9	3.0	3.0	2.6	2.6	3.1
Middle	3.8	4.3	3.9	5.3	5.5	5.9
Secondary	6.5	6.5	5.3	14.5	12.1	11.5
Higher secondary	9.0	7.4	6.8	24.3	17.7	20.7
Diploma/certificate course	-	-	9.5	-	-	27.0
Graduate & above	12.2	9.5	8.3	32.0	31.8	29.8
Secondary & above	8.3	7.3	6.5	19.8	16.9	18.2
	Urban Male			Urban Female		
Illiterate	2.2	3.1	2.8	2.2	2.0	2.5
Literate & up to primary	3.5	4.1	3.7	4.8	3.6	4.0
Middle	6.4	6.4	6.2	14.3	10.2	9.9
Secondary	6.6	6.1	5.2	17.6	13.5	15.8
Higher secondary	9.1	8.6	5.7	21.6	18.5	18.5
Diploma/certificate course	-	-	9.8	-	-	18.5
Graduate & above	6.3	6.7	6.4	20.2	16.1	19.0
Secondary & above	7.0	6.9	6.2	19.6	15.8	17.9

Source: Computed from NSS reports on employment-unemployment for various rounds.

Illiterate or workers with low level of education do not have adequate employment options. Therefore, they cannot afford to wait for a better employment opportunity. On the contrary, educated and trained workers prefer to stay unemployed till they get suitable employment of their choice. Therefore, at higher levels of education, the rates of unemployment are also higher. Further, the possibilities of changing jobs are also higher for educated workers. The transition period between the current job and new job is also a spell of unemployment, which may be referred to as frictional unemployment. So what are the causes of the rise in educated unemployment? First, over the years, there has been significant expansion of the education sector. Therefore, the entry of educated workers into the labour force has increased, but the economy has failed to generate corresponding employment opportunities for these workers. In other words, there is a mismatch between the supply of and demand for educated workers. It may also be argued that the existing education system has failed to provide the right kind of skills and technical aptitudes. The skills and expertise of these educated workers do not match the requirements of various kinds of work and activities. For example, in the Indian educational system, most of the workers having ten years of schooling do not acquire any vocational training, and thus are not suitable for any skilled jobs.

4.5.4 Youth Unemployment

Youth unemployment is a very serious problem with many socio-economic ramifications. Unemployment among the youth is not only a social cost in terms of potential loss of skill and training, but also if it is prolonged, it will create unrest among the youth and may lead to family feuds, alcohol and drug abuse, and suicide.

Table 4.4: Rate of Unemployment Youth Labour Force b/w 15-29 Years (in per cent)

Location/ Age		1993-94			1999-00			2004-05		
		15-19	20-24	25-29	15-19	20-24	25-29	15-19	20-24	25-29
1	2	3	4	5	6	7	8	9	10	11
UPS	Rural	4.2	6.0	2.7	5.7	5.8	2.8	7.5	7.0	3.3
	Urban	14.1	16.5	7.8	15.4	15.4	8.2	14.5	15.2	7.6
UPSS	Rural	2.8	4.1	1.9	4.6	4.6	2.2	5.0	5.0	2.3
	Urban	12.0	14.5	6.6	13.8	13.9	7.5	11.7	12.9	6.4
CWS	Rural	5.5	6.8	4.1	9.1	7.9	5.1	8.8	8.4	4.8
	Urban	14.1	16.9	8.4	16.1	16.0	9.0	14.3	15.2	8.8
CDS	Rural	8.8	9.8	7.4	13.0	11.9	8.7	14.1	13.4	9.4
	Urban	16.6	19.2	10.4	19.0	18.5	10.7	18.0	18.1	11.2

Source: Computed from NSS reports on employment-unemployment for various rounds.

Table-4 presents unemployment rates for rural and urban workers at varying age-groups. For convenience, in this unit, we have defined 'youth' as persons aged 15 to 29 years. In terms of all the four measures of unemployment, the unemployment rates are highest for persons aged 20 to 24 years. The unemployment rates are higher for urban persons at varying age groups. The

unemployment rates have increased for persons of different age groups during 1993-94/2004-05. Thus, the incidence of youth unemployment has an increasing trend and it is more acute in urban areas. Special employment policies and programmes need to be formulated to address the problem of youth unemployment.

4.5.5 Unemployment and Poverty

Unemployment and poverty are two important problems of developing countries and are interrelated. Unemployment and poverty coexist, but are not always positively associated. But unemployment and underemployment are important causes of poverty and, therefore, the provisioning of gainful employment will be crucial for poverty reduction. Since, in the Indian statistical system, poverty is measured on the basis of Monthly Per Capita Expenditure (MPCE), let us now analyse the behaviour of unemployment rates at varying levels of MPCE in rural and urban India.

Table 4.5: Incidence of CDS unemployment by the level of household MPCE (in rupee): 2004-05

Rural		Urban	
MPCE Class (Rs.)	Unemployment Rate	MPCE Class (Rs.)	Unemployment Rate
1	2	3	4
0-235	11.86	0-335	12.70
235-270	11.11	335-395	10.84
270-320	10.03	395-485	10.43
320-365	8.76	485-580	9.01
365-410	9.09	580-675	9.19
410-455	9.23	675-790	9.97
455-510	7.89	790-930	7.84
510-580	7.92	930-1100	7.71
580-690	7.19	1100-1380	6.40
690-890	6.68	1380-1880	6.48
890-1155	6.11	1880-2450	6.43
1155 & above	6.65	2540 & above	4.08

Source: Chandra, Sharma and Kumar, 2008

As per the CDS basis of measurement, there is an inverse relationship between the levels of household MPCE and incidence of unemployment. Table-5 illustrates this feature, both in rural and urban areas. Thus, in terms of CDS measure, the incidence of unemployment rises sharply as the income level (as measured by MPCE) falls.

4.5.6 Underemployment and Working Poor

Let us now discuss the problem of underemployment and working poor. Underemployment problem may take different forms, such as partial lack of

work, low employment income, and underutilization of skills or low productivity. In other words, the underemployed are those persons who seek and are available for alternative work, either because the quantum of current work is not enough, or not remunerative enough. In this section, we will discuss two important features of underemployment, i.e. first, the incidence of working poor by type of employment and broad sector, and second, inadequate availability of work.

The working poor may be described as individuals and families who maintain regular employment but remain in relative poverty due to low levels of wages and earnings. Table-6 shows the proportion working poor by status of employment. Around one-fourth of the total workforce operates at income level, which is below the stipulated levels of MPCE used to define the poverty line in India. It is important to note that the incidence of working poor is highest among the casual workers. The incidence of working poor is also high for the self employed workers. The magnitude of working poor is more in urban areas compared to rural areas for all types of employment.

There are significant variations in the proportion of working poor in broad sectors. A larger proportion of primary sector (i.e., agriculture) workers are poor compared to workers in secondary and tertiary sectors. Again, in urban areas, the incidence of working poor is larger than that of rural areas in all three broad sectors.

Table 4.6: The Proportion of Working Poor (UPSS) in Indian Economy

Employment Status	Rural Persons			Urban Persons		
	1983	1993-94	2004-05	1983	1993-94	2004-05
1	2	3	4	5	6	7
Self-employed	27.76	20.20	16.41	31.52	27.81	24.17
Regular employees	16.87	11.64	9.58	16.03	13.14	11.65
Casual workers	49.44	38.58	31.52	55.63	50.81	45.31
All workers	34.72	26.42	20.83	29.66	25.98	22.21
Sector						
Primary	37.22	28.47	22.39	51.59	48.94	39.08
Secondary	31.05	23.58	20.76	30.33	29.19	26.28
Tertiary	21.08	16.55	12.61	24.49	20.97	17.39

Note: 1). Primary = Agriculture; 2). Secondary = Mining & Quarrying, Manufacturing, Utilities and Construction; 3). Tertiary = Trade, Hotel & Restaurants, Transport, Storage, Communication, etc., Finance, Insurance, Real Estate & Business Services; and, Community, Social and Personal Services.

Source: Computed from NSS reports on employment-unemployment for various rounds.

The National Commission for the Enterprises in the Unorganized Sector (NCEUS) has defined the underemployed as persons who worked for 0.5 to 3 days in a week and are unemployed for at least 0.5 days in the given week. Table-7 clearly shows that the rate of underemployment for all persons increased from 1.7 per cent 1999-00 to 2.3 per cent in 2004-05. There is an increasing trend in this rate both for male and female workers and in rural and urban areas as well. In this context, it is important to mention that the employment requirements are likely to be different for different categories of unemployed and underemployed.

Table 4.7: Percentages of CWS Workers with Work (0.5-3.0 days in any given week & reporting 0.5 or more days of unemployment)

	1993-94	1999-00	2004-05
1	2	3	4
Rural Males	1.89 (57.0)	2.07 (54.4)	2.69 (64.4)
Rural Females	1.73 (17.7)	1.76 (16.7)	2.44 (23.6)
Rural Persons	1.84 (34.1)	1.97 (33.2)	2.61 (42.0)
Urban Males	0.95 (55.0)	0.94 (53.4)	1.49 (75.3)
Urban Females	1.36 (18.1)	1.19 (16.2)	1.23 (18.4)
Urban Persons	1.03 (36.0)	0.99 (35.1)	1.44 (49.7)
All Males	1.64 (56.6)	1.75 (54.3)	2.34 (66.3)
All Females	1.67 (17.7)	1.67 (16.7)	2.23 (24.1)
All Persons	1.65 (34.2)	1.72 (33.4)	2.30 (43.0)

Note: Figures in parentheses are percentages of CWS workers who worked for 0.5 to 3.0 days in any given week and reported 0.5 or more days of unemployment to CWS workers. *Source:* Krishnamurty and Ravendran (2008).

Till now, you have studied the causes, measurements, and dimensions of unemployment. Now, answer the questions given in Check Your Progress-2.

Check Your Progress 2

Note: a) Answer the following questions in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1) What are the important causes of educated unemployment?

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2) What changes would you like to see to reduce educated unemployment?

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4.6 TRENDS IN UNEMPLOYMENT: DEVELOPED & DEVELOPING COUNTRIES

4.6.1 Unemployment Situation in Developed Countries

Customarily the unemployment experiences in developed countries are not similar to that of developing countries. As we discussed earlier, in developed countries unemployment arises largely due to lack of demand, economic slowdown, and recession. Table-8 gives unemployment rates for a few developed nations. Unemployment rates in developed nations are significantly lower than those of developing countries. It is worth noting that in many developed countries, unemployment insurance, and various kinds of social security measures are quite prevalent and universal. Therefore, in developed countries unemployment does not feature as a serious economic problem as it does in less developed and developing nations.

Table 4.8: Unemployment Rate of Labour Force (in per cent) in selected Developed Countries, 2005

Country	Unemployment rate
1	2
Australia	4.36
Japan	3.88
Korea	3.23
Russian Federation	6.10
Singapore	3.95
Spain	8.26
Sweden	6.07
Switzerland	3.64
United Kingdom	5.23
United States	4.62

Source: ILO, Key Indicators of Labour Market, (KILM) 5th Edition, CD-ROM Version, ILO, 2007.

4.6.2 Unemployment in India

It is important now, for you to know about the trends of unemployment in India. In India, the unemployment rates by the four alternative concepts (the usual principal status; the usual principal and subsidiary status; the current weekly status; and, the current daily status) have become available from various rounds of National Sample Survey Organization, since 1972-73.

Before we discuss the trends and the magnitude of unemployment, let us first investigate where India's workforce is employed; which sectors are the largest employers; which sectors offer the potential and scope for increased employment; what types of employment are available in the Indian economy; which sectors are growing, and so on.

If we analyse the structure of employment among three major sectors as depicted in Table-9, there has been a continuous and consistent decline in the primary sector, i.e., agriculture, and increase in the share of secondary and tertiary sector employment in total employment. However, employment diversification has been slow. During these 32 years (as given in Table-9) the share of agriculture has declined from nearly 74.0 per cent in 1972-73 to 56.5 per cent in 2004-05. On the contrary, the share of secondary sector employment has increased from 11.3 to 18.7 per cent during the same period. Similarly, the share of tertiary sector employment has also increased, at a faster rate, especially after 1987-88.

Table 4.9: Percentage Distribution of Workers by Broad Sectors: 1972-73 to 2004-05

	1972-73	1977-78	1983	1987-88	1993-94	1999-00	2004-05
1	2	3	4	5	6	7	8
Primary Sector	73.86	70.98	68.14	64.87	63.98	60.48	56.53
Secondary Sector	11.33	12.51	13.74	17.04	14.99	16.29	18.7
Tertiary Sector	14.76	16.34	17.53	18.09	21.08	23.23	24.8
Non-Agriculture	26.14	29.02	31.86	35.13	36.02	39.52	43.47
Total	100	100	100	100	100	100	100

Note: Primary = agriculture; Secondary = mining & quarrying, manufacturing, utilities and construction; Tertiary = trade, hotel & restaurants, transport, storage, communication etc, finance, insurance, real estate & business services; and community, social and personal services. *Source:* Computed from NSS data on employment-unemployment, various years.

Another important facet of the structure of employment is that of the distribution of workers by their employment status. Even though, there has been a shift of employment from agriculture to non-agriculture, the share of regular wage employees has remained more or less stagnant. More than 50 per cent of the total workforce is self employed (Table-10). The unprecedented rise in self employment and a stagnant share of regular workers raise doubts on the nature and quality of employment available in the economy. In the absence of any direct employer as in the case of self employment, it is difficult to assess the wages and earnings of these workers. Further, it is also important to examine whether the shift towards self employment is out of choice or compulsion.

Self Employed, Regular Employees and Casual Worker

The National Sample Survey Organization (NSSO) characterizes employment as 'self-employed', or 'regular salaried jobs' or 'casual labour'. Persons who operate their own farm or non-farm enterprises, or are engaged independently in a profession/trade on their own, or in partnership are deemed to be self-employed. The essential feature of the self-employed is that they have autonomy (i.e., what, how, where, and when to produce) and economic independence (i.e., market, scale of operation, and money transactions) in carrying out their operations. Persons, who work in others' farms or non-farm enterprises and, in return, receive salary or wages on a regular basis (i.e., not on the basis of daily or periodic renewal of work contract) are defined as 'regular salaried workers'. Finally, a person who is casually engaged in others' farms or non-farm enterprises and, in return, receives wages according to the terms of the daily or periodic work contract, is classified as a 'casual labourer' (NSSO, 2001).

Table 4.10: Distribution of Workers (UPSS) by Employment Status: 1972-73 to 2004-05 (in per cent)

Year	Self Employed	Regular Employees	Casual Labour
1	2	3	4
1972-73	61.4	15.4	23.3
1977-78	58.9	13.9	27.2
1983	57.3	13.8	28.9
1987-88	56.0	14.4	29.6
1993-94	54.7	13.5	31.8
1999-00	52.6	14.7	32.7
2004-05	56.4	15.2	28.3

Source: Computed from NSS data on employment-unemployment, various years.

Let us now discuss the sectors which have shown the employment potential to meet the increasing demand for employment opportunities, in the context of a rising labour force, the increasing incidence of underemployment, and the working poor. It is evident from Table-11 that the overall employment witnessed a declining trend. The overall employment has declined from 2.48 per cent during 1972-73/1983 to 1.98 during 1993-94/2004-05. All three broad sectors have witnessed a slowdown in employment growth rates during the above mentioned period. Agriculture, the largest employer, has experienced a steep decline in growth rates. On the contrary, secondary and tertiary sectors have shown significant positive growth rates. But, overall employment growth is largely influenced by agriculture, since its share in total employment is the largest. The decline in job creation in agriculture may be identified as one of the important reasons behind the increasing unemployment in India, which we have discussed below.

Table 4.11: Growth of Employment (UPSS) in Broad Sectors: 1972-73/2004-05

Sector	1972-73/1983	1983/1993-94	1993-94/2004-05
1	2	3	4
Primary Sector	1.68	1.38	0.84
Secondary Sector	4.43	2.84	4.05
Tertiary Sector	4.21	3.81	3.49
All Non-Agricultural	4.48	3.20	3.74
Total	2.48	2.00	1.98

Note: 1) Primary = agriculture; 2) Secondary = mining & quarrying, manufacturing, utilities and construction; 3) Tertiary = trade, hotel & restaurants, transport, storage, communication etc, finance, insurance, real estate & business services; and community, social and personal services.
Source: Computed from NSS data on employment-unemployment, various years.

Table-12 presents incidence of unemployment in terms of four different measures. It clearly reveals that there is an increasing trend in unemployment rates, especially after 1993-94, but with significant variations. Open unemployment as measured

by UPS has increased from 2.60 in 1993-94 to 3.10 per cent in 2004-05, and, according to CWS, from 3.60 to 4.40 per cent during the same period. The CDS measure of unemployment is not only higher than that of UPS, but over the years, it has increased. The differential rates of unemployment clearly indicate that the problem of underemployment is more acute than that of open unemployment.

Table 4.12: Unemployment Rates of Labour Force (in per cent)

Year	UPS	UPSS	CWS	CDS
1	2	3	4	5
1972-73	3.80	1.61	4.32	8.35
1977-78	4.23	2.47	4.48	8.18
1983	2.77	1.90	4.51	8.28
1987-88	3.77	2.62	4.80	6.09
1993-94	2.60	1.90	3.60	6.00
1999-00	2.70	2.20	4.30	7.30
2004-05	3.10	2.30	4.40	8.20

Source: Computed from NSS data on employment-unemployment, various years.

Till now you have studied the trends of unemployment, as well as the meaning, types, and dimensions of unemployment. Now answer the questions given in Check Your Progress-3.

Check Your Progress 3

Note: a) Answer the following questions in about 50 words:

b) Check your answer with possible answers given at the end of the unit.

1) What are the alternative measures of unemployment?

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2) Briefly analyze the temporal changes in CDS unemployment rates after 1993-94.

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4.7 POLICIES AND PROGRAMMES TO REDUCE UNEMPLOYMENT IN INDIA

With this background, to solve the problem of unemployment and underemployment following measures are required to be considered seriously. First, there is an urgent need to rethink the pattern of investment and choices of technology. Second, the promotion of micro and small enterprises will be crucial for a labour surplus country like India. Third, there is a need to create small industrial clusters, new growth centres in small towns and villages, which can increase employment opportunities and provide flexibility to the economy. Fourth, reorientation of educational system in terms of its content and quality will also be an important remedy for unemployment problem. Needless to mention that public expenditure on education and skill development should be enhanced. Fifth, the scope and reach of public work programmes need to expand. A balanced blend of active measures (i.e., policies designed to improve the access of the unemployed to the labour market and jobs, job related skills and training to improve their employability) and passive measures (i.e., unemployment insurance and related social security benefits) need to be formulated. However, effective implementation and monitoring these policy changes will be of utmost importance to accomplish the desired outcomes.

Various government schemes have been undertaken in India to tackle the problem of unemployment. But these programmes have multiple objectives comprising the reduction of poverty, generation of employment, and the provisioning of crucial basic services. The employment programmes can broadly be categorized into two types: self employment, and wage employment programmes. Some of the important employment generation programmes are described next.

Integrated Rural Development Programme (October 1980): IRDP is a centrally sponsored scheme providing self employment to the rural poor through the acquisition of productive assets or appropriate skills. Assistance, under this programme, is provided in the form of subsidy and bank credit. The pattern of subsidy was 25 per cent for small farmers, 33 per cent for marginal and agricultural farmers and rural artisans, 50 per cent for scheduled castes, scheduled tribes, and physically handicapped persons.

Training of Rural Youth for Self-Employment (August 1979): is a centrally sponsored programme, supporting component of the IRDP. It aims at providing technical and entrepreneurial skills to rural unemployed youths in the age group, 18-35 years from families below the poverty line, to enable them to take up income generating schemes. It has been merged with SGSY since April 1999.

Employment Assurance Scheme (October 1993): initially it has been launched in selected blocks of drought prone, desert and hill areas, and later, extended to all rural blocks with effect from April 1997. The main objective of EAS is to provide about 100 days of assured casual manual employment during the lean agricultural season, at statutory minimum wages, to all persons above the age of 18 years and below 60 years who need and seek employment on economically productive and labour intensive social and community works.

Jawahar Rojgar Yojana (April 1989): This centrally sponsored scheme was started by merging the National and Rural Employment Programme (NREP)

and Rural Landless Employment Guarantee Programme (RLEGP). The main objective of the programme is the generation of additional gainful employment for unemployment and underemployed persons, both men and women, in rural areas through the creation of rural economic infrastructure, community and social assets with the aim of improving the quality of life of the rural poor.

Swarnajayanti Gram Swarozgar Yojana (April 1999) - this is an integrated self-employment programme to provide assistance to poor families living below the poverty line (BPL). It has focused on the group approach, identification of key activities with desired backward and forward linkages, and developing activity clusters.

Swarna Jayanti Shaheri Rozgar Yozna (December 1997): SJSRY is a unified centrally sponsored scheme, 75:25 between centre and states/UTs, and launched afresh in lieu of the erstwhile Urban Poverty Alleviation Programmes, viz., Nehru Rojgar Yojana (NRY), Prime Minister's Integrated Urban Poverty Eradication Programme (PMIUPEP) and Urban Basic Services for the Poor (UBSP). Later on, it added women's self help programmes, skill training for employment promotion among the urban poor and urban community development network.

Sampoorna Gramin Rozgar Yojna (September 2001) - it aims to provide gainful wage employment food security to the rural poor, as well as to develop rural infrastructure along the lines of people's aspirations. Under the scheme, 50 per cent is provided through food grains, and remaining 50 per cent by way of the cash component of wages and material costs.

Jawaharlal Nehru National Urban Renewal Mission (December 2005): the objectives of this mission are: (a) economically productive, efficient, equitable, and responsive cities; (b) improved economic and social infrastructure of cities; (c) ensuring basic services to the urban poor including security of tenure at affordable prices; (d) to initiate wide ranging urban sector reforms to eliminate legal, institutional, and financial constraints that have impeded investment in urban infrastructure and services and, (e) to strengthen municipal governments and their functioning in accordance with the provisions of the constitution (seventy-fourth) Amendment Act 1992.

Mahatma Gandhi National Rural Employment Guarantee Scheme (2005): Initially named NREGS now MGNREGS, aims at enhancing the livelihood security of people in rural areas by guaranteeing one hundred days of wage employment in a financial year to a rural household whose adult members volunteer to do unskilled manual work.

In view of the fact that, more than 70 per cent of India's population resides in rural areas and a vast majority of them are poor, NREGS was initiated with the objective of boosting rural incomes, stabilizing agricultural production, and reducing population pressure on urban areas by arresting rural migration. Some of the important features of this programme are: i) each and every rural household shall have a right to get at least 100 days of guaranteed employment in a year for at least one adult member; ii) employment shall be provided within a radius of five kilometres of the applicant's residence; if employment is provided outside such a radius, then transport allowances and daily living allowance shall be paid, as per the programme rules; iii) employment will be given within 15 days of

application for work; if not, then daily unemployment allowance as per the Act, has to be paid and liability of payment of unemployment allowance is of the States. iv) wages may be paid in kind, or according to piece rate, or daily rate; v) the State Council will prepare a list of preferred and permissible productive work, based on the economic, social, and environmental benefits of these works, and their impact on social equity and assets creation; vi) if, in a worksite, more than 20 women workers are employed, a provision shall be made for one of them to be deputed to look after any children below the age of six years who may be brought to the worksite; and so on. A detailed description of the various features of NREGS and its implementation design, monitoring and evaluation may be found in The National Rural Employment Guarantee Act, 2005 (NREGA): Operational Guide, Ministry of Rural Development, Government of India, 2008. The coverage of NREGS has now been expanded from 200 backward districts to all the districts of the country.

Table 4.13: A Performance Report of NREGS

Items	2006-07	2008-09
Budgetary Provision	Rs. 118 billion	Rs. 313 billion
Expenditure	Rs. 69.47 billion	Rs. 111.40 billion
Households demanding employment	18.73 million	25.04 million
Household provided employment	18.34 million	24.75 million
Employment generated	729.37 million person days	934.54 million person days
Employment provided per household	40 days	37 days
Employment of women	41% of person days	46.36% of person days
Cost per day	Rs. 93.12	Rs. 119.20
Total works: completed + organizing	668296	2111286
xi. water conservation/harvesting	34%	27%
xii. rural roads/connectivity	22%	25%
xiii. irrigation facility to land owned by the disadvantaged groups	10%	9%
xiv. drought proofing (afforestation/tree plantation)	10%	7%
xv. land development	9%	10%
xvi. renovation of traditional water bodies	6%	11%
xvii. micro-irrigation works (minor canals)	3%	3%
xviii. flood control (drainage etc.)	2%	3%
xix. Others	4%	4%

Source: Computed from raw data available at <http://nrega.nic.in/>

In terms of a few performance indicators, Table-13 presents a comparative picture of the working of NREGS during 2006-07 and 2008-09. Table-13 also presents the type of work being undertaken under this scheme. It would be interesting to

analyze the state level performance and find the factors responsible for the success or failure of this programme. Transparent and efficient functioning of local institutions including *Panchyati Raj* and people's participation will be crucial for better implementation of NREGS.

In addition, there are large numbers of rural development programmes which also partly address the unemployment problem. Some of these programmes are: Small Farmers Development Agencies (SFDA), Marginal Farmers and Agricultural Labour Development Agencies (NWAL), Drought Prone Areas Programme (DPAP), Jawahar Gram Samridhi Yojana (JGSY), and National Social Assistance Programme (NSAP).

After reading the policies and programmes to reduce unemployment in India, *Check Your Progress 4*.

Check Your Progress 4

Note: a) Answer the following questions in your own words.

b) Check your answer with possible answers given at the end of the unit.

1) Describe the various measures taken to solve unemployment problem in India.

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2) Write a brief note on the features of NREGS.

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4.8 LET US SUM UP

Rising unemployment and underemployment are two crucial problems that many developing economies face. The problem of unemployment has serious socioeconomic implications. While at the individual level, unemployment leads to malnutrition, illness, mental stress, depression, and deterioration of human values, at the level of the economy it implies underutilization of existing human capital. A high incidence of unemployment adversely affects growth, not only via social unrest and political instability, but also through various other means.

This unit has analyzed the types, the trend, and various dimensions of the unemployment problem. Alternative methods of estimation of the magnitude

and pattern of unemployment have also been discussed. We further discussed the unemployment problem in relation to levels of education and the incidence of poverty. Estimation of underemployment and working poor has also been analyzed.

4.9 KEYWORDS

- Unemployment** : A condition of being unemployed, or without any employment.
- An unemployed person** : A person who, being an active member of the labour force and able to, and seeking work, but unable to find work during a specified reference period (a week, a month, or a year).
- Unemployment rate** : The proportion of unemployed persons in the labour force, i.e., $\text{Unemployment Rate} = \frac{\text{Unemployed Labour force}}{\text{Employed} + \text{unemployed}} \times 100$
- Underemployment** : A situation arising from partial lack of work, low employment income, and underutilization of skills, or low productivity.
- Working poor** : Those individuals or households, who maintain regular employment, but remain in relative poverty due to low levels of wages and earnings. Their earnings are lower than the income level, on the basis of which a person is categorized as below the poverty line.

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4.11 CHECK YOUR PROGRESS: POSSIBLE ANSWERS

Check Your Progress 1

- 1) What do you mean by unemployment?

Answer. It is defined as a condition of being unemployed or without any employment.

- 2) Define the types of unemployment and give examples for each of these types from your own experience?

Answer. The following are three important types of unemployment:

- i) Structural unemployment : Unemployment arising due to changes in consumer demand and technology is called structural unemployment. For example, due to the arrival of computer technology, many persons lost their jobs.
- ii) Cyclical unemployment : When there is an economy-wide decline in aggregate demand for goods and services, employment declines and unemployment correspondingly increases. Unemployment arising due to business cycle fluctuation in the economy is called cyclical unemployment or demand deficient unemployment. For instance, during the recent global slowdown, in late 2008, many workers around the globe lost their jobs.
- iii) Frictional unemployment : The transition period between the current to a new job refers to frictional or temporary unemployment.

Check Your Progress 2

- 1) What are the important causes of educated unemployment?

Answer. There is an expansion of education sector in India, leading to a large pool of educated persons seeking work and available for employment. But the Indian economy has failed to generate a corresponding level of

employment opportunities. Further, there is a mismatch between the types of skills imparted by the educational system and training requirement in the economy.

- 2) What changes would you like to see to reduce educated unemployment?

Answer. There is a need to reorient the Indian education system as per the requirement of the economy. The skills and training should be linked with specific job requirements, and vocational training should be given importance to encourage educated persons to undertake self-employment activities in agriculture, industry, and services sector.

Check Your Progress 3

- 1) What are the alternative measures of unemployment?

Answer. There are four different measure of unemployment; Usual Principal Status unemployment (UPS), Usual Principal and Subsidiary Status unemployment (UPSS), Current Weekly Status unemployment (CWS) and Current Daily Status unemployment (CDS).

- 2) Briefly analyze the temporal changes in CDS unemployment rates after 1993-94.

Answer. In terms of CDS, the unemployment rate has increased after 1993-94. Many policy changes initiated during the economic reform period since 1991 may be analyzed to explain this increase in unemployment rate during this period.

Check Your Progress 4

- 1) Describe the various measures taken to solve unemployment problem in India.

Answer. There are a number of employment generation programmes and anti-poverty programmes initiated by state and central government. (see the such programmes in 4.7 and consult for details Economic Survey, Ministry of Finance, Government of India).

- 2) Write a brief note on one feature of NREGS.

Answer. National Rural Employment Guarantee Scheme (NREGS), launched in 2006, is an important employment generation programme in which each and every rural household shall have a right to get at least 100 days of guaranteed employment in a year, at least for one adult member of the household.