

# UNEMPLOYMENT, POVERTY AND INEQUALITY: A THREAT TO HUMAN DEVELOPMENT

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**Abstract:** *The paper attempts to analyze both theoretical discussions and empirical evidences on unemployment, poverty and inequality linkages. Paper argues that the process of globalization with state withdrawing its responsibility leading to strengthening market and creating competitive environment would make these linkages much sever in the vicious circle in developing countries. In such a situation there is need for a strong institution building to attend such socio-economic problems in developing countries. Paper suggests that there is an imperative need for collective efforts by government, corporate bodies and civil society organizations to solve these problems and to promote human welfare*

**Key Words:** *Unemployment, Poverty, Inequality, Human Development, Governance*

## 1. INTRODUCTION:

A major concern in the Development Economics is to find an answer to why do different countries or different states with in a country grow differently leading to different degrees of income inequalities and poverty. Many researchers have identified various factors responsible for suppressing the growth rate of economy. There are studies highlighting the country-specific factors such as governance, institutions and culture play a dominant role in determining the growth path of a region (Hayami 1997). It is also noted that achieving high rate of economic growth rate leads to decline in income inequality and incidence of poverty (World Bank 1993). However it is a challenge to overpopulated, agriculture based developing economy to establish a favorable linkage between institutional factors and problems like unemployment, poverty and inequality to set a smooth path of economic development.

Employment satisfies the social, economic and cultural needs of individuals, empowers them, and entitles them to many benefits. In contrast to this, unemployment is a state of affairs without a job or employment. It is important to note that an unemployed person is an active member of the workforce capable of working and actively seeking employment but is unable to find it. Unemployment does not merely imply non-utilization or under-utilization of resources, but implies deprivation of income, productivity, equity, willingness, recognition, satisfaction and a host of economic and non-economic issues. All these linkages lead to incidence of poverty and inequality and make that section of the society weaker and non-competitive. The promotion and maintenance of full-employment will eliminate all these losses and will result in high levels of production, national income and standard of living of the people. Hence, promotion and maintenance of full-employment is one of the accepted objectives of economic policy in developed as well as developing countries. Different schools of economics have viewed the problem of unemployment with different perspectives.

## 2. The Neo-classical and Keynesian perspective:

Technological unemployment created by the process of capitalist development and the resulting reserve army of labour formed an essential part of the Marxian analysis of capitalist development. But the Classical tradition and Say's Law sidelined the significance of unemployment, considering it to be short-lived phenomenon arising out of friction of market imperfections in the economy. Classical economists and their followers believed that if 'invisible hand' of the market allowed to operate freely it would automatically bring about full-employment. Keynes ruled out the possibility of achieving full employment through wage reductions. It is the level of aggregate demand that determines the level of full-employment at under-full-employment equilibrium in the Keynesian system, and not the level of wage rates. To Keynes it is insufficient demand that leads to unemployment of labour and other productive equipment.

Since maintenance of full-employment required existence of aggregate demand at a comparable level which might not always be forthcoming on its own through uncoordinated actions of private entrepreneurs and consumers, the gap would have to be made up through excess of the government 's investment expenditure over the revenue receipts. In this perspective public finance policy became an appendage of employment policy (Lerner1951). But subsequent development revealed some inadequacies of Keynesian policy framework in successfully tackling unemployment problem under the changed circumstances, for it stressed the demand side of the problem. Keynesian

analysis and policies were formed to fight against unemployment in industrial part of the world during inter-war period. Such an explanation and policy that emerge out of it fall into the context of developed countries.

Thus, Neo-classical as well as Keynesian frameworks are inadequate for tackling the problems of the developing countries as the two paradigms were concerned with the short run problem of unemployment and were cast with the given mould of a given stock of capital. Capital stock cannot stay constant since the act of investment itself creates capital. Domar formulated a model that postulated the rate of growth of productive capacity at which the growth of income generated by investment would exactly keep in step with the growth in the stock of capital brought about through this investment. Expansion in the level of employment is a function of the growing stock of capital, its magnitude depending upon the existing capital-labor ratio.

### **3. The Development Perspective:**

The employment problem of developing countries assumes the character of invisible under-employment or a low productivity employment. Employment generated in the rural areas, and to a certain extent even in the urban areas, does not conform to the job pattern in organized industries or service activities. The lack of employment opportunities arise essentially on account of inadequate stock of physical capital and infrastructural facilities which could provide avenues of fruitful employment, although inadequate aggregate demand could also exist simultaneously. Consequently employment creation would be dependent upon the pace at which the requisite stock of physical and human capital could be expanded. Rosenstein Rodan (1943), Nurkse (1953) and Lewis (1954) focused on growth of aggregate capital stock as a key factor determining the pace at which surplus labor could be absorbed in productive activities.

Economics have put forward models of development that show how a country with abundant labor can bring about rapid economic development through the use of its labour measures. The two-sector models developed on the question of labour transfer from rural to urban areas and its absorption in the modern sector assume that the surplus labour from the subsistence sector gets absorbed in the modern sector through wage-price mechanism. Thus, it is held that at a slightly higher wage rate in the capitalistic sector that is necessary to cover the higher cost of living and the psychological cost of the tighter industry discipline, the surplus rural agricultural labor gets transformed and absorbed in the urban modern capitalist sector.

However, development experience has shown that industrialization has not resulted in rapid reallocation of labor. It is observed that repeated rises in real wages consequent to government wage regulations stimulated management responses in terms of labour saving innovations, giving rise to steeply rising rather than a horizontally moving wage employment locus as envisaged in the two sector models. Moreover, there has been a decline in the labour absorption capacity of the modern sector in selected developing countries. Lewisian concept of ever increasing demand for labour in urban industrial centers seems to be rudely shattered by empirical realities. The reason is that the growth of wage employment opportunities in the modern urban sector has been more sluggish than was once assumed. Industrialisation in most of the under-developed countries was not the capital intensive type as was the case with the 19<sup>th</sup> century West and it was also not an integrating type in the sense of having induced backward and forward linkages as in contemporary developed economies of the west. As a result, rural urban migration in the Third World countries has only added to urban unemployment. In the Lewisian framework, employment generation was taken to be exclusively a function of capital formation. While the rate of investment is a key variable, its employment impact is very much dependent upon the technique used in the production process.

Within the Neoclassical framework, it is the ratio of factor prices, which in turn is dependent upon the existing factor proportions that determine the choice of production techniques. In a labour abundant, capital scarce developing country, if the factor markets function completely, the price of labour, namely wage rate, would decline relatively to that of capital. Hence rational decisions should lead to adoption of labour intensive technology that would tend to absorb the unutilized surplus labor. However, the factor price argument stems from the fact that it views solution to the unemployment problem of under development exclusively in terms of correcting factor price distortion and its influence on the technique of production. This is essentially a reflection of the generalization of primarily a micro economic analytical apparatus to a macro economic problem. In the process, it ignores the key role of the rate of investment in extending the size of capital as a source of providing employment in the same way as the Lewisian approach focused primarily on extending the size of capital stock without incorporating the impact of technology on unemployment. In reality, the technique of production used has an important repercussion on the pace of capital formation.

An effective use of an economy's labour resources is also a major pathway to achieving sustained progress in developing countries. Labour intensive development is the only effective and sustainable way in which basic needs and growth objectives can be pursued simultaneously. An enduring solution to the problem of unemployment in the developing world must be sought as part of the overall strategy of socio-economic development. Adhoc and short-term measures only compound the problem as time passes. A new approach to development lies in

extending the principle of generating self-employment in both urban and rural economies as a means of promoting labour absorption.

#### 4. Magnitude of unemployment problem:

Employment problems vary between developed countries and developing countries. In a developed country where technological intensity is very high, the structures of the economy, the supply of demand for labour and market potentialities are different from those in developing economy. Educated, unskilled and informal labour supply with appropriate low level of technology gives a different significance to unemployment. Historically the economic development of Western Europe and North America were discussed in terms of the continuous transfer of economic activity and people from rural to urban areas, both within and between countries. Although urban slums and unemployment were evident in 19<sup>th</sup> century England, the combination of urban industrialization and agricultural mechanization made it possible for western nations to undergo a systematic rural to urban transfer of their resources.

In developing countries, abject poverty and chronic unemployment have become the major challenges to their developmental efforts. In a wide spectrum of developing countries, as cited by Todaro (2000), open unemployment, especially in urban areas, now affects 10 per cent of 20 per cent of the labour force. Even larger fractions of both urban and rural labour forces suffer from underemployment. In addition to the openly unemployed, large numbers of workers are grossly underutilized. The incidence of unemployment is much higher among the young and the educated. It is estimated that the educated youth unemployment rate to be in excess of 30 per cent in a large number of developing countries. In Asia, the problem groups' are mainly university graduates and secondary school level educated youth. Although voluntary unemployment among the educated was more prevalent in the growth decades of 1960s and 1970s, unemployment grew rapidly largely due to economies being demand-constrained' by external factors in 1980s and 1990s. This caused a marked declaration of industrial growth, a rapid decline in real wages and falling urban and rural employment; and most of the unemployment has been of the involuntary variety. Human Development Report (1993) stated that many developing countries are witnessing anew phenomenon of jobless growth or 'output employment lag'.

Unemployment in a developing country is positively related to poverty and unequal distribution of income and that is why every strategy intended for development focuses at removing both poverty and unemployment. A recent estimate made by the Planning Commission indicates that at the beginning of the Ninth Five Year Plan (1997-2002), the backlog of unemployment was 7.6 million based on usual status approach.

Unemployment is noticed in the case of educated as well as uneducated people both in urban and rural areas. Among its different ramifications, unemployment of the educated is more conspicuous and formidable. As per the 55<sup>th</sup> Round of national Sample Survey (NSS) (1999-2000) report, about 37.3 per cent of the total unemployed are with education level at secondary school level and above. Of much greater concern is that the wage employment is increasingly casualised and the increase is more pronounced in rural areas and among males, for it rose from 34.6 per cent in 1993-94 to 36.6 per cent in 1999-2000, indicating the employment scenario during economic reforms.

Moreover, the Ninth Plan estimated a decline in employment elasticity for the economy from 0.40 during the decade 1983 to 1993-94 to 0.38 in the context of growth in output in India. This being an indicator of the employment content of growth, a fall in its value indicates that growth has become less employment intensive according to the recent estimate made by the Economic survey (2000-2001), there was a sharp decline in the overall growth of employment in the organized sector from 0.46 per cent in 1998 to a level of 0.04 per cent in 1999. Thus, the deceleration trends in employment generation coupled with rise in involuntary unemployment among the casual labour along with educated unemployed further add complexities to the problem of poverty and unemployment.

Unemployment in India is projected to witness marginal increase between 2017 and 2018, signalling stagnation in job creation in the country, according to a UN labour report. The United Nations International Labour Organization (ILO) released its 2017 World Employment and Social Outlook report, which finds economic growth trends lagging behind employment needs and predicts both rising unemployment and worsening social inequality throughout 2017. Job creation in India is not expected to pick up pace in 2017 and 2018 as unemployment rises slightly, representing a near stagnation in percentage terms.

Unemployment in India is projected to increase from 17.7 million last year to 17.8 million in 2017 and 18 million next year. In percentage terms, unemployment rate will remain at 3.4 per cent in 2017-18,. Further, regional variation in unemployment is noticed significantly. Table-1 gives State wise unemployment rate in India.

**Table-1: State wise Unemployment Rate (%)**

States (India) Jan 2018			
Andhra Pradesh	6.0	Madhya Pradesh	2.7
Assam	7.4	Maharashtra	3.3
Bihar	4.1	Meghalaya	11.1
Chandigarh	13.0	Odisha	5.5

Chhattisgarh	6.8	Puducherry	4.5
Delhi	2.5	Punjab	6.7
Goa	4.7	Rajasthan	6.2
Gujarat	2.9	Tamil Nadu	2.5
Haryana	16.1	Telangana	4.0
Himachal Pradesh	11.8	Tripura	20.1
Jammu & Kashmir	10.1	Uttar Pradesh	4.0
Jharkhand	6.9	Uttarakhand	1.2
Karnataka	1.9	West Bengal	8.7
Kerala	6.0		

### 5. Reasons for educated unemployment:

Different scholars and authorities have viewed and examined the problem from different angles. However, the cause of the problem looked from any angle is the imbalance between supply of and demand for educated labour in the market. The liberal educational system and the pursuit of traditional academic subjects with its theoretical bias and lack of aptitude and technical qualifications are the major factors contributing to educated unemployment in the country. As observed by Harbison (1973), "Education is a self-escalating industry". At each successive stage of education, enrollment has been growing at a much higher rate compared to the preceding stage. A partial explanation is that such education is increasingly considered as a desirable subsistence for unemployment. The more unprofitable a given level of education becomes as a terminal point, the more demand for it increase as an intermediate stage or pre-condition to the next level of education. As Todaro (2000) remarked, 'Each worsening of the employment leads to an increased demand for more education at all levels'.

Heavy subsidization of education has made college education affordable level to the lower income groups, which in turn has caused educated unemployment to rise rapidly. The private perception of the value of education is its social value, which takes account of rising unemployment. By using the rate of return technique it has been calculated that at all levels of education in India the private rate of return on educational investment exceeded the private cost of education. It has been also noted that educated unemployment in India is structural which could not be caused simply by expansion of demand for labour. Therefore, we need to rely heavily on the supply side of the problem. The argument is that the educated unemployment in itself is no proof of over investment in education; it is caused by market imperfections. Even if the labour market functions smoothly it would not change the employment situation. Therefore factors on the supply side of the labour market are responsible for the employment problem. The appropriate remedy, therefore, involve an active manpower policy designed to improve the functioning of labour markets rather than a contraction of upper secondary and higher education. Since demand management is difficult, supply side management through training the unemployed can accomplish.

Although the reasons for unemployment are varied in their nature, the change in employment pattern across different sectors either requires new skills through training or up gradation of skills among the existing employees for employability from the job seekers. The same is particularly true when the gap between the employment opportunities and job seekers is widening because of the mismatch between the available skill and requirement. This over the years resulted in involuntary unemployment among the youth, which is said to be a highly productive population. Therefore, the only ray of hope for the educated unemployed in the present context seems to be self-employment. The strategy exerts strong influence on the supply and demand side of the problem. On the supply side, self-employment strategy makes the educated more productive by imparting the skills in formal and informal ways. From the demand point of view, it develops self-employment as main dependent sector where the unemployed people can seek their fortune. Studies by Waldorf and Waldorf (1983) on Thailand, Hart (1973) on Kenya and Sumner (1981) on Guatemala and House (1984) on Nairobi brought out an important empirical finding that self employed people appeared to have higher earnings than their wage employee counterparts in urban areas. These studies recommended policy support for self-employment in order to harness their potentialities and also to increase the level of output and employment. Therefore, as an alternative towage-employment, if the government encourages such persons to seek self-employment by providing a package of inputs/services, the educated unemployed can get gainful employment.

### 6. Employment strategies and programmes in India:

The basic objective of development planning of the government of India is 'Growth with Social Justice and Equity'. As a part of this broader objective, the emergence of entrepreneurship in both urban and rural areas and organized management resulting in increasing productivity and better employment opportunities are also the goals of balanced industrial development in the country. While it is necessary to ensure that greater productive employment is generated in the growth process itself, it is recognized that the growth process alone cannot provide employment if the growth rates of gross domestic product are low and pattern of growth is not labour intensive. Hence, there is a need for state intervention in order to provide supplementary employment to the people. During the Fourth Five Year Plan

(1969-1974), therefore, an employment oriented development strategy has been evolved and few special employment schemes have been conceived and implemented. The need for special employment programmes is clearly highlighted by the Bhagavati Committee (1973). There is a plethora of such schemes during the subsequent plans. The fundamental rationale underlying these special employment schemes is the fact that the sectoral development programmes have failed to provide employment to growing labour force, leaving aside the backlog of unemployed. However, the direct state interventionist schemes supplement the sectoral efforts.

The new employment strategy of the Ninth Five Year plan (1999-2002) aimed at generating productive work opportunities in the growth process itself by concentrating on sectors, sub sectors and technologies that are more labour intensive in regions characterized by higher rate of unemployment and underemployment. In order to solve these problems, India has mainly two special programmes. They are wage employment and self-employment programmes.

## 7. Poverty and Inequality in Indian Villages:

Information on rural living conditions in India is abundant, as there is a rich tradition of village studies. There are many studies evaluating the evolution of poverty and inequality in India. Even though, many village studies observe a decline in traditional caste occupations, agriculture remains the central source of income in Indian villages. Though, tenancy reforms brought down the landlessness, it is observed that agricultural intensification has caused it to rise. Although, statistics in India point to a steady decline in poverty, their absolute level remains high. Absolute poverty levels are measured in terms of consumptions or income. These measures generally scrutinize, instead of positions of households relative to one another. Therefore, even the income of poorest households increased poverty situation may not have much changed. In this regard regional inequality is also observed. Therefore, instead of generalizing the statistical inferences there is a need to probe into the intensity and nature of inequality and thereby the level of absolute poverty existing in different regions.

**Table-2: Poverty situation in Asian countries**

Countries	Year	Poverty ratio
Bangladesh	2010	31.5
Bhutan	2012	12.0
Maldives	2009	15.0
Nepal	2010	25.2
Sri Lanka	2012	6.7
<b>India</b>	<b>2011</b>	<b>21.7</b>

Source: Basic Statistics 2017

According to the *Modified Mixed Reference Period (MMRP)* concept proposed by World Bank in 2015, India's poverty rate for period 2011-12 stood at 12.4 percent of the total population, or about 172 million people; taking the revised poverty line as \$1.90.

## 8. CONCLUSION:

Economic development is not merely decided by the existence of resources and their utilization. Region specific factors like governance, institutions and cultures also influence in deciding the path of development. The nature of human resource utilization (employment) in a given economic environment, influence the incidence of poverty and inequality. Unemployment, poverty and inequality are the basic problems of social/public welfare in India. In the globalized context, there is need to understand these problems with different methodology. Statistical pictures may not reflect the reality of these problems as they are influenced by many non-measurable institutional factors. As these problems can't be expected to solve by the newly created competitive market alone, there is an imperative need for the collaborative efforts by government, corporate bodies and civil society organizations.

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