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**POLICY FORMULATION BY GOVERNMENT TO DEAL WITH
UNEMPLOYMENT AND UNDEREMPLOYMENT PROBLEM IN INDIA:
AN ANALYSIS OF SCHEMES, BUDGET AND FIVE-YEARS PLANS**

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ABSTRACT

Human resources are considered one of the most essential requirements for an economy to excel. No matter how much we move forward with technological advancements, nothing can match human intelligence and certain skills that only humans possess. Around the globe, there are many examples that the developed economies have very huge growth prospects in the future, employing human capital in the best way possible. Unemployment is basically a problem in an economy where human capital is ready to work and has required skills but can't find a job or can't be employed. Whereas under employment is a situation where there are jobs to offer in an economy but human capital does not have the required skill set. The rudimentary difference between both the situations is, in the first one there are no jobs in an economy and in the later one human resource lack skills set or are over qualified in respect of the jobs available in an economy. It is very important for an economy to trace these problems and make policy measures to eradicate such problems. So, this study is focusing on policy measures that exist and should be introduced to develop Indian Human Capital Resources.

Keywords: *Human Resources, Unemployment, Underemployment, Policy Measures, Human Capital.*

INTRODUCTION

India is a developing nation and more importantly a labour intensive country but still problems of unemployment and underemployment exist because of economic shortfalls, mismanagement by the government and other stakeholders or maybe any kind deficiency in human capital. One

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of the first solutions to unemployment was given by Lord Keynes. He suggested that we should keep the level of effective demand at its maximum or produce at the border line of the production possibility curve so that we can curb the problem of unemployment by ensuring non-fluctuating production of goods and services. Well to support the previous statement with an example we can see the trends during the greatdepression of 1929 and situation after world war 2. After the economic boom, during the recession period and peace times, labourers went jobless and it was hard to absorb all of them in peacetime industries. But from what it has been absorbed by recent trends the main type of unemployment in India is not more of cyclical and frictional but it is more of chronic underemployment, disguised unemployment and unemployed urban educated class. This is because of shortage of capital and other resources.

METHODOLOGY

The current work is aiming to find out efforts of government to deal with unemployment and underemployment in India. This study is analysing all the schemes, policies approved by government to minimise the under and unemployment in India. In addition to this the current study includes the analysis of news articles, journals, articles, government reports, books etc. Therefore this is an analytical study which is focusing basically on the government's schemes and their results both the present and expected. The current paper is centering on the following points;

- i. The status of unemployment and under employment level in India.*
- ii. The schemes provided by government to reduce the same.*
- iii. The critical analysis of the scheme*

ELABORATION OF CONCEPTS OF THE STUDY

To infer the topic i.e. policy formulation by Government to deal with unemployment and underemployment problem in India the following concepts should be made clear for the targeted population. Which includes *Human Resources, Unemployment, Underemployment, Policy Measures, Employment, Economics & Human Capital.*

Human Resources: It includes all the working population in India. In simpler form it takes into account the resources or individuals which are contributing in the GDP of India. When one talks about factors of production it is the most important factor i.e. Labour, without which total production process is incomplete.

Unemployment: The group of individuals who desperately seeking jobs or employment

opportunity but not able to get one. In simple terms one can define these people as idle eligible work force³.

Underemployment: When the eligible as well as trained work force is compelled to do the work which is less than their eligibility and they are also paid with less than what they deserve then this is known as under employment.⁴

Policy Measures: the measures undertaken by government to ensure better life and welfare of the citizen. This is related to different policies undertaken by different departments of the government. The main intention behind policy formulation is to provide the citizens a better life and living.⁵

Human Capital: it means the skill, efficiency, knowledge, health and performance or technical know-how that can contribute towards the economic development of the country.⁶

1. ESTIMATES OF UNEMPLOYMENT AND UNDEREMPLOYMENT IN INDIA

I. Unemployment in 1971

TABLE 1 - Unemployment in India. 1971 (in millions)⁷

| Unemployment in India | TOTAL | RURAL | URBAN |
|---|-------|-------|-------|
| Total no. of unemployed | 18.7 | 16.1 | 2.6 |
| Total labour force | 180.4 | 148.4 | 32.0 |
| Total unemployed as percent of total labour force | 10.4 | 10.9 | 8.1 |

II. Underemployment in India, in 1971

TABLE 2- Estimate of under-employed in the labour force (1973)⁸

| Hours in a week | No. of unemployed (in millions) | Percentage of underemployed in labour force |
|-----------------|---------------------------------|---|
| | | |

³ Unemployment, (2022), <https://corporatefinanceinstitute.com/resources/knowledge/economics/unemployment/> visited on 10/06/2022 at 9.59 pm

⁴ <https://corporatefinanceinstitute.com/resources/knowledge/economics/underemployment/> visited on 14/06/2022/207pm

⁵ <https://www.lawinsider.com/dictionary/policy-measure#:~:text=policy%20measure%20means%20a%20regulatory%2C%20financial%2C%20fiscal%20or%20voluntary%20instrument,and%20implement%20other%20measures%20to,> visited on 14/06/2022 at 1.22pm.

⁶ <https://www.worldbank.org/en/publication/human-capital>, visited on 14/06/2022 at 1.26

⁷ Committee of Experts on Unemployment (1973), annual budget

⁸ Compiled from Report of the committee on unemployment, May 1973

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| Less than 14 hours | | |
|--------------------|------|------|
| Rural | 8.5 | 5.7 |
| Urban | 1.2 | 4.0 |
| Less than 28 hours | | |
| Rural | 23.5 | 15.9 |
| Urban | 3.4 | 10.5 |
| Total | 26.9 | 14.9 |

III. Unemployment in India, in 1980

TABLE 3- Magnitude and rate of unemployment in India⁹

| Unemployment | 1980 (millions) | 1980 (%) | 1977-78 (%) |
|--------------------|-----------------|----------|-------------|
| Usual status | 12.02 | 4.48 | 4.23 |
| Weekly status | 12.18 | 4.54 | 4.48 |
| Daily status | 20.74 | 7.84 | 8.18 |
| Total Labour force | 268.05 | | |

IV. Unemployment in India, in 2000

TABLE 4- Projection of unemployment for 1990-2000¹⁰

| Unemployment | Million |
|--|---------|
| Backlog of unemployment in the beginning of 1990 | 28 |
| New entrants to the labour force during 1990-95 | 37 |

⁹ Compiled from the planning commission

¹⁰ Compiled from planning commission, Ninth Five Year Plan, Budget

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| | |
|---|-----|
| Total unemployed for the 8th plan (1+2) | 65 |
| New entrants to the labour force during 1995-2000 | 41 |
| Total unemployed for the 9th plan | 106 |

V. Incidence of unemployment and underemployment in 2010-11

TABLE 5- Unemployment and underemployment in 2010-11¹¹

| ACTIVITY STATUS | PROPORTION OF LABOUR FORCE |
|-----------------------------------|----------------------------|
| Labour force | 100.00 |
| Employed | 89.55 |
| Unemployed | 2.02 |
| Under-employed | 8.43 |
| Unemployment and under-employment | 10.45 |

As seen the above tables, we can divide the history of unemployment in India into 3 phases, the one before 1971, the second is 1971-2019, and the third one is during and after pandemic. The employment growth even after introduction of so many schemes and plans was not attractive. It was because of low planning and overlapping of the schemes. In the second phase employment was growing in a steady pace until 2019. During pandemic lots of jobs were lost, according to budget of 2021-2022, unemployment rates raised to 9.3% which was the highest since 2 decades. Even after pandemic the combatting of the problem is not satisfactory. According to the budget of 2022-23, the unemployment rate is still as high as 7.6%. so we are back to the position as we were in 2005.¹² Since 2005 around 1% of total budget is allocated towards employment schemes and programs. Now we will look into various schemes and program and will critically analyse it.

2. VARIOUS POLICIES AND SCHEMES TO REDUCE UNEMPLOYMENT AND

¹¹ Compiled from planning commission, Ninth Five Year Plan, Budget

¹² Union budget 2022-23 analysis by PRS India

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UNDEREMPLOYMENT (PHASE I)

Before 1971, the government of India introduced various schemes to eradicate the problem of unemployment and underemployment. Some of the schemes are as follows (as mention in Bhagwati Committee report, 1973)¹³; -

- i. *“Rural Works Programme”*- Under the scheme, the government invested in construction works to provide employment to the unemployed.
- ii. *“Marginal Farmers and Agricultural Labourers”*- This scheme provided credit to small scale farmers on a subsidized rate.
- iii. *“Small Farmers Development Agencies”*- It provided credit to small scale farmers to use technology and diversify their activities.
- iv. *“Integrated Dryland Agricultural Development”*- Under this program the government undertook labour intensive work like soil conservation and water harnessing programs.
- v. *“Agro-service Centres”*- It concentrated on providing assistance for self-employment to the educated unemployed. Government took initiative to open repair centres to employ mechanical and other graduate students. Also agricultural centres were established to provide employment aimed for producing agricultural equipment on a large scale.
- vi. *“Crash Programme for Rural Employment”*- It was introduced under the Fourth Five-year plan. It had two fold objectives, foremost was to provide at least 100 villagers an employment for 10 months and the later was to produce capital assets with labour intensive technique, also introducing the latest technology in villages.

All the above mentioned schemes and plans didn't meet their objectives in an impressive way. Also the audit report presented in Lok Sabha during 1974 showed that a total of Rs. 170 crores spent by the government on above mentioned schemes are wholly unproductive.

3. PHASE II

After 1971, started a phase of achievement, a period of time where the policies and schemes introduced by the government actually worked. Though it was not full proof and can't eradicate unemployment totally but has proven really more effective than what was there before 1971. Some of the most successful policies are as follows: -

- i. *“National Rural Employment Program”* –

¹³ Bhagwati Committee Report, 1973

The old food for work program was renamed and introduced as NREP in 1980, during the sixth five-year plan, with an aim of providing 300-400 million man-days per year. 50 percent of the cost was sponsored by the central government. Total employment generation under this program was 1775 million man-days.¹⁴ Revised guidelines provided reservation for scheduled tribes and also promoted social forestry. The audit of the plan showed that Rs. 2,490 crores were spent by the government during 1985-86 and 1988-89 while employment generated was 1447 million man-days. There were many shortcomings to the plan as pointed out by reputed institutes like, National Institute for Rural Development and Indian Institute of public administration. Some of them are, there was a lot of corruption while implementation of the plan that's why it was not successful in its full potential, wages offered under this plan are generally lower than the market wages rate, and the main interest group of the program, the poorest of the poor were generally left out altogether.

ii. "Rural Landless Employment Guarantee Program"-

It was introduced to assist NREP with the main motive of generating capital assets with help of rural people, hence providing them stable employment and improving their overall quality of life. It was totally sponsored by the central government. The money allotted was on the basis of the number of small scale farmers and people below the Poverty line of the state of the Union territory. Both were given equal weightage. During its audit in the seventh five-year plan, it was shown that Rs. 2,412 crores were spent providing 1,154 million man-days. Also 5.3 lakh hectares of land was covered with forest in a period of 3 years. As the objective of RLEGP and NREP were largely similar, they were merged together.

iii. "Integrated Rural Development Program"-

The government realized the unfavorable situation created by overlapping of the schemes. So it integrated all the programs into one and introduced IRDP (Integrated Rural Development Program). Programs like Small Farmers Development Agencies (SFDA), Marginal Farmers and Agricultural Labourers (MFAL), Drought Prone Area Program (DPAP), Desert Development Program (DDP), Command Area Development Program (CADP) etc.¹⁵ were merged. The main idea behind this program was to alleviate poverty and aid unemployment and underemployment. Economists realised that the growth in a country's per capita income might not mean eradication of poverty and growth of employment opportunities. Especially in third world countries like India, the economic growth especially benefits the privileged class of

¹⁴ Statics from India Environment Portal

¹⁵ Gaurav Datt and Ashwini Mahajan, S. Chand, *Indian Economy*, (72ed, 2014)

people. Its main objective was to shift the concentration of rural labour force from agricultural to non-agricultural sector, provide assistance and promote self-employment amongst rural poor and provide them capital assets so they may cross the poverty line. Initially IRDP was launched in 5011 blocks each containing 600 families below the Poverty line and an amount of Rs. 35 lakhs were allocated to each block. A total of 75 million people were targeted in the beginning. The expenses were equally shared by central and state governments. This program followed “*antyodaya*” which means reaching the poorest of the poor first. Earlier the credit up to Rs. 2000 was given by bank to the rural poor without any collateral now this limit was extended up to Rs. 5000. There were many shortcomings to the program like there was not proper selection of the beneficiaries to the program, lack of adequate training of the beneficiaries and also the government officials who were in charge of implementing the program, many reports suggested that the program didn’t lead to incremental income in most of the cases. There was a lack of infrastructural facilities like marketing, repairing and other input facilities. Other social drawbacks were, women beneficiaries constituted only 34% of the total beneficiaries. Also the investment on one family was too low to generate stable and sustainable income. In the beginning of the ninth plan around Rs. 16,500 was spent on each family as compared to approximately Rs. 8,000 in the start of eighth Five-year plan. As revealed by the NABARD committee, around 75% of them belong to the non-poor class, there were also misuse of the subsidised and collateral free loan provided by the government. The subsidised loan gave rise to a system of brokerage which led to corruption. Considering the effect of inflation, the progress was not satisfactory and adequate. This scheme was finally restructured as “*Swarnajayanti Gram Swarozgar Yojana*”.

iv. “Jawahar Rozgar Yojana”

All the existing rural employment programs like NREP and RLEGP were merged under this.¹⁶ Its main objective was reaching to every panchayat and assisting them, benefitting 440 lakh families. At first it was equally funded by the central and state government, and then it was shifted to 80:20. It focused on gender inclusive ways of employment generation. It aimed to create sustainable infrastructure with the help of the community and favoring the poor. It had a vision of having a positive impact on wage levels and improving quality of life. There were several parts to this scheme. Firstly, “*Indira Awaas Yojana*”, under this social forestry was promoted, soil and water conservation work was undertaken, minor irrigation work,

¹⁶ ID

construction works like rural roads, water tanks, toilets, community centres and educational buildings were undertaken to provide employment. Secondly, “*Million Wells Scheme (MWS)*”, under these wells for irrigation and availability of drinking water were dug. Thirdly, some innovative and special employment projects were introduced. Some of them are as follows: -

- a. “*Employment Assurance Scheme*” – Introduced by Maharashtra government, under this scheme a total of 100 days of employment a year was to be provided to a maximum of 2 adults from a family, with the eligibility criteria for 18+ years of age.
- b. “*Jawahar Rozgar Yojana*” – It was an all India implantation of the Employment assurance scheme.
- c. “*Jawahar Gram Samridhi Yojana*” – Under this program all capital assets were generated with the help of human capital. During 2000–01, a total of Rs. 1650 crores were spent and 88.5 million man-days were generated.
- d. “*Swaran Jayanti Gram Swarozgar Yojana*”- It was a combination of IRDP and MWS. It promoted micro-business and self-help rural groups.
- e. “*Swaran Jayanti Shahari Rozgar Yojana*”- it was an urban centred self-employment and wage employment program. In a 3-year period a total of Rs. 353 crores were spent generating 21.8 million man-days of employment.

4. ENACTMENT OF ACTS, PHASE III

Apart from the above mentioned schemes, Government of India passed two acts for eradication of unemployment, those are: -

i. “EMPLOYMENT GUARANTEE ACT - 2005”

Under this act the government gave legal guarantee to provide 100 days for employment to at least one adult of a household. The wages were to be paid within 7 days of the employment. The employment should be provided within 15 days of demand that too within the area of 5 kms. If the government fails to do so, the beneficiary would be provided with an unemployment allowance that is one-third of the total wage. The beneficiaries were also provided free treatments. 5% of their wage is contributed toward health insurance and other benefits. To cancel out the corruption, the accounts reports were accessible to the public. The district collector was responsible for district level implementation where gram panchayats were responsible for rural areas. According to the “*National Advisory Council*” about 1% of the total GDP was spent under this act.

ii. “NATIONAL RURAL EMPLOYMENT GUARANTEE ACT”

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This was the first ever recognition of “*Right to Work*”.¹⁷ The provisions under this act were more or less same as EGA. Some of the additional provisions were; women were given one-third reservation in the fields of employment where the number of applicants was high. Any number of members of a family can apply for employment and can distribute 100 days among them. It was a central funded scheme.

5. CRITICAL ANALYSIS OF THE PLANS AND SCHEMES

- i. *Lack of professional staff* - The government officials who were in charge of implementing the plans on the roots of it were not experienced or trained. Neither the beneficiary selected by them was accurate which prevented them from attacking directly on the problem. Also there was a shortage of staff as compared to the number of people demanding jobs under the scheme which led to ignorance of beneficiaries and acted as an obstacle to achieve the main objective.
- ii. *Lack of proper project planning* - There were a lot of shortcomings to plans. It lacked the future perspective, the provision of providing 100 days of employment and unemployment allowances cannot go on for a long period of time, because that would be unsustainable. The centre and state government lacked coordination which led to a communication gap. This led to lack of adequate funds and accountability.¹⁸ Also there was overlapping of plans by the central and state government, each of them with the same objectives but different plans of actions. This led to confusion amongst stakeholders.
- iii. *Bureaucratic resistance* - Many prominent economists and academicians criticised the plans introduced by the government. When funds were transferred, a lot of corruption in the process led to lack of funds. Also many economists promoted the idea of rural travelling to urban areas for working in factories. Though it would lead to more slums but it would provide stable earnings to the household. The government's vision of generating employment in rural areas with these plans was considered a waste of time and money.
- iv. *Lack of transparency and absence of audit* - There was a lack of transparency and proper auditing of the funds which led to stealing of funds by several people involved in the execution of the plan.¹⁹ The statements presented in budget sessions were also considered forged and unreal.

¹⁷ India Const. Part IV, art. 15

¹⁸ Ajit K Ghose, *Current issues of employment policy in India*, Economic and Political Weekly Vol. 34, No. 36 (Sep. 4-10, 1999), pp. 2592-2608 (17 pages)

¹⁹ ID

v. *Low wages* - Though the government generated lots of employment opportunities under this plan but the wages they gave were not adequate and generally were under the market wage rates. Also the assistance provided to self-help groups and educated unemployed for self-employment purposes were not adequate. Government constantly provided rural areas with capital assets, but as truly pointed out by economists, the poor and unemployed require money not assets to survive.

6. RECOMMENDATION

- i. Appointing full time professionals rather than making existing government officials to implement the plan would be a great help. As the staffing for a specific purpose would be more efficient and they won't be diverted from their task because of some other task they are already in charge of.
- ii. Educating the beneficiaries about the rights and privileges available to them under the plan will convince them to take full advantage of the scheme.²⁰
- iii. The implementation route should be cut short so that the gap between employment and wage will be less. This will ensure faster development and less dissatisfaction amongst the beneficiary groups.
- iv. There should be a different body which should monitor the leakages and misappropriations of the fund, so as to combat corruption.²¹
- v. There should be a revision of wage rates from time to time so as to keep up with the effects of inflation and ensure the wage and monetary assistance provided is adequate. Because lack of funds and overflow of funds, both are dangerous situations. If the government will slack off in this part, there are chances that people will opt for private or informal mode of employment which might exploit them in long run.
- vi. Disadvantaged groups like women and lower caste people should be given a priority under these plans so that it can ensure equality when these are implemented. Generally, these group of people are the most vulnerable and the worst sufferers of extreme conditions. So gender based plans should also be taken into actions.

7. CONCLUSION

²⁰ Papola, Trilok. (2008). Employment Challenge and Strategies in India.

²¹ *Supra note 9*

India is moving towards becoming one of the most prosperous economies in the world but problems like unemployment and underemployment stand in the way of achieving it. Though the government is trying to deal with it by introducing several plans and allocating huge funds towards it under budget, the improvement is not satisfactory and fast paced as it should be. Labour less economic growth is what India should fight against. With the recommendations stated about and fighting the shortfalls as pointed out above in the existing plans, India can really make a huge difference.

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