

UNIT-V

MAIN CAUSES OF POVERTY IN INDIA

(i) Heavy pressure of population:

Population has been rising in India at a rapid speed. This rise is mainly due to fall in death rate and more birth rate.

(ii) Unemployment and under employment:

Due to continuous rise in population, there is chronic unemployment and under employment in India. There is educated unemployment and disguised unemployment. Poverty is just the reflection of unemployment.

(iii) Capital Deficiency:

Capital is needed for setting up industry, transport and other projects. Shortage of capital creates hurdles in development.

(iv) Under-developed economy:

The Indian economy is under developed due to low rate of growth. It is the main cause of poverty.

(v) Increase in Price:

The steep rise in prices has affected the poor badly. They have become more poor.

(vi) Net National Income:

The net national income is quite low as compared to size of population. Low per capita income proves its poverty. The per capita income in 2003-04 was Rs. 20989 which proves India is one of the poorest nations.

(vii) Rural Economy:

Indian economy is rural economy. Indian agriculture is backward. It has great pressure of population. Income in agriculture is low and disguised unemployment is more in agriculture.

(viii) Lack of Skilled Labour:

In India, unskilled labour is in abundant supply but skilled labour is less due to insufficient industrial education and training.

(ix) Deficiency of efficient Entrepreneurs:

For industrial development, able and efficient entrepreneurs are needed. In India, there is shortage of efficient entrepreneurs. Less industrial development is a major cause of poverty.

(x) Lack of proper Industrialisation:

Industrially, India is a backward state. 3% of total working population is engaged in industry. So industrial backwardness is major cause of poverty.

(xi) Low rate of growth:

The growth rate of the economy has been 3.7% and growth rate of population has been 1.8%. So compared to population, per capita growth rate of economy has been very low. It is the main cause of poverty.

(xii) Outdated Social institutions:

The social structure of our country is full of outdated traditions and customs like caste system, laws of inheritance and succession. These hamper the growth of economy.

(xiii) Improper use of Natural Resources:

India has large natural resources like iron, coal, manganese, mica etc. It has perennial flowing rivers that can generate hydro electricity. Man power is abundant. But these sources are not put in proper use.

(xiv) Lack of Infrastructure:

The means of transport and communication have not been properly developed. The road transport is inadequate and railway is quite less. Due to lack of proper development of road and rail transport, agricultural marketing is defective. Industries do not get power supply and raw materials in time and finished goods are not properly marketed.

SUGGESTIONS FOR REMOVAL OF POVERTY FROM INDIA

(i) Population Control:

Population in India has been increasing rapidly. Growth rate of population is 1.8%. For removal of poverty the growth rate of population should be lowered.

(ii) Increase in Employment:

Special measures should be taken to solve the problems of unemployment and disguised unemployment. Agriculture should be developed. Small scale and cottage industries should be developed in rural areas to generate employment.

(iii) Equal distribution of Income:

Mere increase in production and control on population growth will not remove poverty in India. It is necessary that inequality in the distribution of income should be reduced.

(iv) Regional poverty:

In States like Orissa, Nagaland, U.P and Bihar etc. the percentage of the poor to the total population is high. Govt. should give special concession for investment in these regions. More PSU's should be established in these states.

(v) Problem of Distribution:

The public distribution system (PDS) should be strengthened to remove poverty. Poor section should get food grains at subsidized rates and in ample quantity.

(vi) Fulfillment of minimum needs of the Poor:

Govt. should take suitable steps to meet minimum needs of the poor e.g., supply of drinking water and provision of primary health centres and primary education.

(vii) Increase in the productivity of the Poor:

To remove poverty, it is necessary to increase productivity of the poor. The poor should be given more employment. More investment should be made in public and private sectors to generate employment.

(viii) Changes in techniques of Production:

India should adopt labour intensive techniques of production. We should have technical development in our economy in such a way that labour resources could be fully employed.

(ix) Stability in Price Level:

Stability in prices helps to remove poverty. If prices continue to rise, the poor will become more poor. So Govt. should do its best to keep the prices under control.

(x) Development of Agriculture:

The agriculture should be developed to remove poverty. Rapid rate of growth of agriculture production will help to remove urban as well as rural poverty. Agriculture should be mechanized and modernized. Marginal farmers should be given financial assistance.

(xi) Increase in the rate of growth:

Slow rate of growth is the main cause of poverty. So growth rate must be accelerated. In 2003-04 the growth rate has been 6.5% despite that 26% of population remains below poverty line.

TYPES OF UNEMPLOYMENT

There are three main types of unemployment, cyclical, structural, and frictional.¹ Cyclical unemployment is, unfortunately, the most familiar. It occurs during a recession. The second two—structural and frictional—make up the natural unemployment rate.

This article summarizes nine types of unemployment. In addition to the four listed above, it explains long-term, seasonal, and classical unemployment. It also explains the terms "real unemployment" and "underemployment."

Cyclical Unemployment

Cyclical unemployment is caused by the contraction phase of the business cycle. That's when the demand for goods and services falls dramatically. It forces businesses to lay off large numbers of workers to cut costs.

Cyclical unemployment creates more unemployment. The laid-off workers have less money to buy the goods and services they need. That further lowers demand.

In the form of expansive monetary policy and fiscal policy, government intervention is required to stop the downward spiral. After the stock market crash of 1929, the government did not step in right away. This delay led to the Great Depression, which lasted 10 years and led to a 25% unemployment rate.²

Frictional Unemployment

Frictional unemployment occurs when workers leave their old jobs but haven't yet found new ones.³ Most of the time, workers leave voluntarily, either because they need to move or have saved enough money to allow them to look for a better job.

Frictional unemployment also occurs when students are looking for that first job or when mothers are returning to the workforce. It also happens when workers are fired or, in some cases, laid off due to business-specific reasons, such as a plant closure.

Frictional unemployment is short-term and a natural part of the job search process. In fact, frictional unemployment is good for the economy, as it allows workers to move to jobs where they can be more productive.

Structural Unemployment

Structural unemployment exists when shifts occur in the economy that creates a mismatch between the skills workers have and the skills needed by employers.³

An example of this is an industry's replacement of machinery workers with robots. Workers now need to learn how to manage the robots that replaced them. Those that don't learn need retraining for other jobs or face long-term structural unemployment.

A long recession often creates structural unemployment. If workers stay unemployed for too long, their skills have likely become outdated. Unless they are willing and able to take a lower-level, unskilled job, they may stay unemployed even when the economy recovers. If this happens, structural unemployment leads to a higher rate of natural unemployment.

Natural Unemployment

Natural unemployment consists of two of the three main types of unemployment: frictional and structural. It explains why there will always be some level of unemployment, even in a healthy economy. People will always be changing jobs, and sometimes they leave a job before finding a new one. There will always be some people with skills that are no longer needed.

The lowest level of unemployment was 2.5%, right after the Korean War.⁴ Employers had a hard time finding workers. It occurred because the economy was in a bubble that soon burst and led to a recession. A healthy economy will have a natural unemployment rate of 4.5%-5%.

Long-Term Unemployment

Long-term unemployment occurs for those actively looking for a job for over 27 weeks.⁵ The effects are devastating. Many employers overlook someone who's been looking for that long. The emotional and financial costs can be very damaging, according to a Pew Research Survey.⁶ For example, 38% have lost self-respect. Almost 30% said their new job was worse than their old one. Sadly, 43% said they would have a hard time achieving their career goals.

Real Unemployment

Real unemployment is not one of the types of unemployment, but it's a term you need to understand. Many people argue that instead of the "official" unemployment rate, we should use an alternate rate. The Bureau of Labor

Statistics calls it the "U-6" rate. Others call it the "real" unemployment rate because it uses a broader definition of unemployment.

It includes these two categories:

1. Marginally attached workers: They haven't looked for work in the past four weeks, but have looked within the past year. Some of them become discouraged workers who have given up looking for work.
2. Part-time workers: They would like a full-time job but can only find part-time employment.

Seasonal Unemployment

You might also hear of seasonal unemployment as another type of unemployment. As its name suggests, seasonal unemployment results from regular changes in the season. Workers affected by seasonal unemployment include resort workers, ski instructors, and ice cream vendors. It could also include people who harvest crops. Construction workers are laid off in the winter in most parts of the country. School employees can also be considered seasonal workers.

The BLS does not measure seasonal unemployment. Instead, it adjusts its unemployment estimates to rule out seasonal factors.⁷ This adjustment gives a more accurate estimate of the unemployment rate.

Classical Unemployment

Classical unemployment is also known as "real wage unemployment" or "induced unemployment." It's when wages are so high that employers can't hire all the available workers.⁸ In other words, wages are higher than the laws of supply and demand would normally dictate.

It occurs in one of these three situations:

1. Unions negotiate higher salaries and benefits.⁹
2. Long-term contracts set a wage that has become too high due to a recession.
3. The government sets a minimum wage that's too high.

The result is that companies must pay more in wages per employee. So, they can afford fewer employees. Those that are laid off are victims of classical unemployment.

Underemployment

Underemployed workers have jobs, but they aren't working to their full capacity or skill level.¹⁰ This category includes those who are working part-time but would prefer full-time jobs. It also includes those who are working in jobs where they aren't being utilized. Underemployment is often caused by cyclical unemployment. During a recession, underemployed workers will take what they can to make ends meet.

Some definitions of underemployment include unemployment. Others include segments of society that are not included in the standard definition of unemployment but are counted in the real unemployment rate. Awareness of underemployment helps you understand the big picture of unemployment.

What Is Unemployment?

The BLS defines unemployment very specifically.¹¹ To count as unemployed, out-of-work employees must have these three qualities:

1. They aren't working, even part-time or temporary.
2. They are available to work.
3. They actively looked for work in the past four weeks.

This last point is important and often controversial. If someone has stopped looking for work, the BLS no longer counts them as being part of the labor force or as unemployed. But it does report them separately under the category of "marginally attached to the labor force." These are people who look for work in the past 12 months but not in the past four weeks.

Unemployment in India is a complex problem with numerous overlapping and intertwined causes; however, it is possible to identify several key causes. This article will attempt to describe and outline these causes, which vary from macro-level factors (e.g. overall slow economic growth as well as population increases) to more micro-level factors (e.g. the joint family system of business). Understanding the causes of unemployment is the first step in beginning to rectify this major problem and creating a society in which everyone is able to find a sustainable livelihood for themselves and their families.

Unemployment Rate in India

According to the **Centre for Monitoring Indian Economy** (CMIE), an economics and business think-tank, as of 2018, unemployment in India had risen to 31 million individuals looking for jobs. The lowest **unemployment rate** in India was **3.4%** (July 2017) but has now risen to 7.1%.

CAUSES OF UNEMPLOYMENT IN INDIA

This list captures many of the major causes of high unemployment in India but is not entirely exhaustive. There are further factors contributing to this problem as well, many of which may not yet have been identified.

The following are the main causes of unemployment:

1. The Caste System

The caste system—a structure of social stratification that can potentially pervade virtually every aspect of life in India—is a major factor in generating unemployment. In some locations, certain kinds of work are prohibited for members of particular castes. This also leads to the result that work is often given to members of a certain community rather than to those who truly deserve the job—those who have the right skills. The result is higher levels of unemployment.

2. Increased Population Growth

Increases in population have been considerable over the half-century. The country's overall population is made up of more than 1.3 billion people, second only to that of China. Moreover, India's population is **predicted** to exceed China's by the year 2024; it will, furthermore, probably be the most populous country for the entirety of the 21st century. As the country's economic growth cannot keep up with population growth, this leads to a larger share of the society being unemployed.

3. Slow Economic Growth

Because the Indian economy is relatively underdeveloped, **economic growth** is considerably slower than it might otherwise be. This means that as the population increases, the economy cannot keep up with demands for employment and an increasing share of people are unable to find work. The result is insufficient levels of employment nationwide.

4. Slow Industrial Growth

Similarly, while industrialization has been considerable, its rate of growth is nevertheless fairly slow. There is a major emphasis on industrialization nationwide, which has elevated the Indian economy; however, industrial growth continues to generate relatively few new jobs overall as compared to increases in population.

5. Seasonality of Agricultural Occupations

Agriculture offers unemployment for a large segment of the population, but only for several months out of the year. The result is that for a considerable portion of the year, many agricultural workers lack needed employment and income. More stable sources of income are essential to permit the fulfillment of basic needs.

6. Joint Family System

Large family businesses may often involve family members who depend on the family's joint income but do not contribute substantive work. Although these individuals may appear to be working, they may not actually add anything to the business. The result is that their unemployment is "disguised."

Thus the joint family system may contribute to low productivity. However, this system also offers numerous positive benefits as a social and economic safety net in which those who cannot find work elsewhere can derive support from their families and contribute to their business. It's likely, then, that this system may offer more benefits than drawbacks.

7. Loss of Small-Scale/Cottage Industries

Industrial development has made cottage and small-scale industries considerably less economically attractive, as they do not offer the **economies of scale** generated by large-scale mass production of goods. Oftentimes the demand for cheap, mass-produced goods outweighs the desire for goods that are handcrafted by those with very specific skill and expertise. The result is that the cottage and small-scale industry have significantly declined, and artisans have become unemployed as a result.

8. Low Rates of Saving and Investment

India lacks sufficient capital across the board. Likewise, savings are low and the result is that investment—which depends on savings—is also low. Were there higher rates of investment, new jobs would be created and the economy would be kickstarted.

9. Shortage of Means of Production

Production is, quite simply, limited by the amount of materials, equipment, and energy available to fuel it. Shortages of raw materials, facilities, fuel, and electricity means decreased production of goods, which logically results in decreased availability of jobs.

10. Ineffective (or absent) Economic Planning

This is a major source of unemployment in India. Problematically, there were no nationwide plans to account for the significant gap between labor supply (which is abundant) and labor demand (which is notably lower). It is crucial that the supply and demand of labor be in balance to ensure that those who need jobs are able to get them; otherwise, many individuals will compete for one job.

11. Expansion of Universities

Thus far, this article has primarily addressed working-class unemployment, as this affects the majority of the population. However, the numbers of white-collar workers have increased as well. This is due in part to the fact that the number of universities in India has increased in recent decades—currently, there are roughly 385 universities throughout the country. The result is that more people are educated and become white-collar workers, while unfortunately, the supply of white-collar jobs does not match their numbers.

12. Inadequate Access to Irrigation

In recent years, less than half—only 39%—of India's total cultivable land has access to irrigation. This means, then, that large areas of land can only grow one crop per year. Many farmers are unemployed for the majority of the year, during this off-season, due to lack of irrigation facilities.

13. Labor Immobility

Culturally, attachment and maintenance of proximity to family is a major priority for many Indian citizens. The result is that people avoid traveling long distances from their families in pursuit of employment. Additionally, language, religion, and climate can also contribute to low mobility of labor. As one might expect, when many of those who might otherwise be suited to jobs are unable to travel to reach them, unemployment is magnified.

Measures to Solve Unemployment Problem in India

A close reading of the Five-Year Plans reveals that in every Five-Years Plan, employment expansion has been emphasised as an objective of development. Despite all the plan pronouncements, the backlog of unemployment has increased. This is because each Plan was not even able to absorb the new entrants in the labour force.

The following measures have been suggested for solving the unemployment problem in our country:

1. A Change in the pattern of investment

The planning process in the initial stages gave importance to an investment-allocation pattern with a high capital-labour ratio. Therefore, a shift in the emphasis to mass consumer goods industries would generate more employment to absorb the unemployed labour force. Moreover, increase in the supply of such goods may help arrest the rising price-level and increase the economic welfare of the people. This is the wage-goods model of development suggested by Vakil and Brahmanand.

2. Encouragement to small enterprises as against big enterprises

The employment objective and the output objective can be achieved, if greater investment is directed to small enterprises rather than to large enterprises. Now that the Government wants to undertake decentralised development with emphasis on small-scale enterprises, it would be desirable to reorient credit, licensing, raw material allocation and other policies in such a manner that both employment and output are enlarged simultaneously.

3. Problem of Choice of technique

It would be better to switch over to intermediate technologies till the process of industrialisation gets such a powerful momentum that the new entrants to labour force can be absorbed. During the period of rapid growth in the labour force, it would be advisable to adjust the choice of techniques consistent with the employment objective. Intermediate technology would be more suited to Indian conditions.

4. Encouragement of New Growth Centres in Small Towns and Rural Areas

Experience of planning has revealed that the overcrowded metropolitan centres have received a large share of investment. Therefore, the smaller towns should be developed as new growth centres for the future. The establishment of small industrial complexes can increase employment opportunities and provide flexibility to the economy.

5. Subsidies on the Basis of Employment

All schemes of subsidies and incentives to large and small industries have helped output maximisation and greater use of capital resources. The pattern of subsidies should be altered. Creation of more employment should be treated as the basis for the grant of subsidies and incentives. This will shift the entire structure of government support from the large-scale producer to the small-scale producer as

this is more consistent with the objective of employment generation and achieving equality and social justice.

6. Reorientation of Educational Policy

One great defect of our educational system is that it leads one to take up the professional degree only. The high degree of unemployment among the educated signifies the urgent need to reorient our educational system to greater employment opportunities. Education system should be more diversified. It should have more short term vocational courses that will cater to the local employment needs. Development of quality education is a prerequisite for the development of a nation as it is the remedy for all problems including the problem of unemployment in the country. Hence, a high priority needs to be accorded for education in public expenditure.

7. Underemployment in Rural Areas

N.S.S. data have revealed the existence of a high degree of underemployment in India. The total number of underemployed persons available and willing to take up additional work is estimated to be more than two crores. It is necessary to organise the Rural works Programme. Failure of implementation of Rural Works Programme underlines the relatively low importance given to the rural sector to provide additional employment to millions of landless labourers and small and marginal farmers. Urgent action is needed in this direction so that work opportunities grow in the rural areas. This will raise the level of income and employment in rural areas and reduction in poverty levels..

MERITS AND DEMERITS OF THE PRIVATISATION AND GLOBALISATION POLICIES

Following observations highlight the merits of Liberalisation, Privatization and Globalisation (LPG) policies:

A Vibrant Economy

As a result of LPG reforms, Indian economy has definitely become a more vibrant economy. Overall level of economic activity has trended up as indicated by GDP growth. Post LPG policies, the growth of GDP shot up to as high as 8 per cent per annum.

Stimulant to Industrial Production

LPG policies have worked as a great stimulant to industrial production in the Indian economy. It is owing to these policies that IT industry in India has achieved global recognition.

Curb on Fiscal Deficit

Mounting fiscal deficit has been a serious threat to the process of investment in the Indian economy. It was as high as 8.5 per cent of GOP prior to 1991. Thanks to the LPG policies, there has been a significant increase in government revenue. Consequently, fiscal deficit has been contained to around 4 per cent of GOP. This is not sufficiently low, yet significantly lower than before.

A Check on Inflation

Owing to a greater flow of goods and services in the economy, LPG policies brought a check on the rate of inflation. Till 2007-08, it ranged between 4-5 per cent which is not a serious threat to interest rate structure. However, in the years (2011-12 to 2013-14), inflation started hovering in the range of 6-9 per cent per annum. For year 2016-17, inflation rate is estimated to be 3.39 per cent. It may be noted that high inflation triggers a rise in interest rate, implying a rise in the cost of investment. Accordingly, growth rate is adversely impacted.

Consumer's Sovereignty

Consumers' sovereignty has definitely expanded over time. This is evident from the fact that a large variety of goods and services from the diverse global markets are now within the easy reach of the buyers. Producers are widely responding to the consumers' choice and preference. Consequently, overall level of expenditure of the households has tended to rise, implying an overall rise in the welfare status of the people.

A Substantial Increase in Foreign Exchange Reserves

Depletion of forex-reserves was one of the compelling reasons for the government to shift to LPG policies. Thanks to these policies, Forex reserves of the country have now reached a comfortable level. Good amount of forex reserves enhances economic confidence of the global investors in the Indian markets.

Flow of Private Foreign Investment

Private foreign investment has taken a quantum jump after the adoption of LPG policies. This has been a matter of great relief to the government in view of the facts that: (i) domestic economy was not generating enough of surplus for reinvestment, and (ii) indigenous technology was getting obsolete. It is significant to note that private foreign investment is often accompanied with innovative techniques of production.

Recognition of India as an Emerging Economic Power

Due to LPG policies and the consequent rise in the overall level of economic activity, India is now being recognized as an emerging economic power in the world. This recognition (particularly by developed nations of the world) not only raises India's economic ranking in the world, but also boosts confidence of the global investors in the Indian economy as their preferred destination of investment.

A Shift from Monopoly Market to Competitive Market

Launch of LPG policies has caused a significant shift in the structure of the Indian markets. Indian markets are now increasingly shedding its monopolistic character, and becoming more and more competitive in nature. For instance, a couple of decades back, products like cars, refrigerators, ACs and PCs were the monopoly markets of select brands only. Now a variety of these products are available at competitive prices.

Briefly, owing to LPG policies, the Indian economy has definitely gained a 'growth momentum'. The process of growth has not only accelerated, but has also become more diversified. There is a definite change in welfare level of the people. Recognition of the Indian economy as an emerging economic power in the world is of crucial significance.

Demerits of LPG Policies

Following observations highlight demerits or negative impact of LPG policies in India:

Neglect of Agriculture

Growth of GDP has primarily been triggered by the growth of secondary and tertiary sectors. Agricultural sector has suffered a serious neglect and its growth rate has depleted to a miserably low level (2-3 per cent per annum). Accordingly, India is witnessing a widening gulf between the rural and urban economies.

Set-back to agricultural sector implies a set-back to the principal source of livelihood of the masses in India. Indeed, neglect of agriculture implies spread of poverty. And it is pertinent to note that slow growth of agricultural sector must ultimately hinder the process of growth of the industrial sector as well.

This is because:

- agricultural sector is an important source of raw material for the industrial sector.
- agricultural sector is the principal source of labour supply to the industrial sector
- agricultural sector is a significant source of demand for the industrial products like tractors and thrashers.

Urban Concentration of Growth Process

LPG policies have resulted in the concentration of growth process in urban areas. Think of any MNC, you will hardly find its trace in the rural areas of the country. All MNCs are focusing only on urban areas, where they find conducive infrastructural facilities. This has further widened the 'rural-urban divide'. Any such economic dualism deepens social

dualism as well. Together, economic and social dualism are a big threat to the process of growth and development.

Economic Colonialism

India suffered nearly 200 years of political colonialism during the British rule. Now, while MNCs are expanding their economic control, we might suffer a sort of economic colonialism. Implying a situation where MNCs are exploiting the Indian markets to sell their products and in the process, domestic producers are marginalised owing to their poor competitive strength.

Spread of Consumerism

Spread of MNCs in the country as a consequence of LPG policies has resulted in a large-scale spread of consumerism. A variety of global brands in the market has lured the masses to become spendthrift, going beyond their means. The Indian society is adapting itself to the western culture of spending through borrowing. This may expand size of the market for the traders and the manufacturers but certainly enhances vulnerability of the households as consumers.

Lopsided Growth Process

LPG has accelerated the growth process of the Indian economy, but it is lopsided. It is not an inclusive growth process. It is a growth process that does not embrace all the sectors of the economy. Rather, it is a growth process which is increasingly relying on 'service sector' of the economy. It is just an 'IT-focused' growth process which is gradually over-shadowing the process of industrialisation, besides neglecting the farming sector.

Cultural Erosion

Globalisation has also led to cultural erosion in the Indian society. Economic prosperity has taken a lead over all other parameters of life. Everybody wants to be economically independent and well-off, regardless of his responsibility towards the family or the society. Loyalty towards the family and loyalty towards the society which used to be the strongholds of the Indian social culture are being discarded as of vintage-value in the wake of materialism.

Conclusion

Should we or should we not subscribe to the LPG policies – is a debatable issue. But avoiding the intricacies of the debate, we can definitely make one concrete observation that LPG policies were the only way out to accelerate the pace of growth and development. Indeed perusal of LPG policies was to a great extent a matter of economic compulsion rather than a matter of choice for the politicians of the country.

However, a compulsion should never mean an abject surrender. It is strongly recommended that LPG policies are pursued with guarded precautions. We must see to it that we do not surrender to big players in the international markets. We must see to it that we do not compromise with economic interest of our domestic producers, while allowing a free access to the foreign investors in the Indian markets. We must see to it that we do not become economically subservient to multinational corporations. We must be in a position to channelize FDI (foreign direct investment) more into areas of infrastructure rather than retail trading or fast-food junctions.

