UGC Approved Journal

© UNIVERSAL RESEARCH REPORTS | REFEREED | PEER REVIEWED

ISSN : 2348 - 5612 | Volume : 04 , Issue : 13 | October – December 2017

A study of the relationship between Economic Growth and Unemployment in India

Mrs. Monika

(M.A. Eco, M.Phil., NET)

Extension Lecturer in Economics

Deshbandhu Gupta Govt. College Panipat

Abstract

The main goal of this research is to analyze the effects of economic development on unemployment in India. Descriptive statistics, Granger causality, and the Ordinary Least Squares model were used to examine the relationship between economic expansion and joblessness both before and after the Hodrick-Prescott filter was used to compensate for non-stationarity in the time series data. According to the results of a Granger causality test, neither UNEMP nor GDP can be said to have caused the other. However, the estimated regression of unemployment and economic growth as explanatory variables shows that the impact of economic growth on unemployment is only 6% and is inversely related to each other, while the remaining 94% is due to other factors that are negatively" affecting India's unemployment rate.

Keywords: Economic Growth, Unemployment, Employment, Granger Causality, Ordinary Least Squared.

Introduction

Concerns about unemployment tend to lessen during periods of rapid economic expansion. However, in India's case, fast economic development wouldn't instantly solve the country's unemployment issue. Even when India's GDP grew fast in the past, only a small number of high-paying jobs were created as a consequence of the expansion's structure. In his book "India's long road," Vijay Joshi highlights the uneven nature of India's development: "India's entire workforce increased by 63 million persons between 1999-00 and 2009-10; 22 million of these 44 million became unorganized workers in the organized sector; the number of official workers in the organized sector fell by 3 million." Although GDP and other measures of economic development point to robust improvement, the jobless rate is rising. Although there are signs of a quick economic recovery, the job market as a whole is still weak. Long-term economic development might be stunted by a lack of work opportunities since a decline in consumer spending would reduce people's disposable incomes. Low economic growth and high unemployment remain significant difficulties for India's economy as a whole. Latest Labour Bureau data shows that job growth in India slowed significantly from 2012 to 2016, with employment falling from 2013-14 to 2015-16 for potentially the first time in independent India. There was a net loss of jobs and a rise in the unemployment rate, according to polls conducted independently in 2016 by a well-known private organization. The International Labor Organization (ILO) predicts that in 2017, 17.8 million people would be without jobs, down from 17.6 million in 2016 and 18 million in 2017. Social and economic difficulties, as well as the inability to provide high-quality jobs for the labor market, are blamed for the world's unemployment problem. The number of jobless persons in developing nations rose by around 3.6 million between 2016 and 2017. The problem of high unemployment has persisted for a long time, especially in India. The lack of available jobs, especially permanent ones, is a major contributor to the unemployment rate. In today's economy, part-time and casual jobs are replacing full-time positions at an alarming rate. Unemployment in India is attributed to many factors, including the country's negative economic growth, the replacement of human labor with capital, and an ever-increasing labor force. The unemployment rate in India continues to rise and is becoming more problematic. Employment projections show that in 2017, 17.8 million people would be out of work, up from 17.6 million in 2016, and 18 million in 2017. It also explains how social and economic issues, together with the inability to provide enough high-quality jobs, have contributed to a worldwide unemployment crisis. From 2016 to 2017, the number of jobless people in developing nations rose by almost 3.6 million. If there are no available jobs for individuals to take, we have an unemployment crisis. The unemployment rate is calculated by dividing the number of persons who are jobless by the total number of people who are actively seeking work in the civilian labor force (International Labour Organization, 2009).

Unemployment and it’s situation in India:

Gains in employment are a major factor in a flourishing economy. The private sector plays a significant role in India's historically varied and robust economy. The development process has had minimal effect on India's economic structures. First, compared to the previous reporting period, there has been a notable rise in collective employment. The main idea is that even while organized sector development is relatively robust and labor productivity has increased, stagnant real wages are not enough to ensure employment growth. Both full-time and part-time joblessness are on the rise in many developing nations. Unemployment refers to the underutilization of human resources in the economy as a whole, and its causes include hunger, illness, psychological stress, despair, and a reduction in human values on the micro level. The number of unemployed Indians is rising, and everyone there wants a real job, but someone needs to perform the dirty work. Most modern firms see training as a drain on resources and so refuse to spend extra time or money on it. These are the main reasons why the country's progress is stagnating. According to the most recent Indian census (2011), the population of India is 1.21 billion, or 17.5% of the global total.

Types of unemployment:

There are many different kinds of joblessness. Cyclical joblessness refers to unemployment brought on by the normal ups and downs of an economy. Unemployment due to friction arises when labor demand and supply are mismatched. When the economic structure of a society changes or there aren't enough parts of the production system that work together, structural unemployment results. The reason is "not because of breakthroughs in manufacturing technologies, but because of organizational strategies," as one specialist put it. Disguised joblessness occurs when a person is willing to work but is unable to do so due to a lack of qualifications at any given time of the year. For a deeper dive into this topic, we provide a detailed description down below.

Cyclical Unemployment: Temporary joblessness that occurs every so often due to the economy's ups and downs. Foreign troops might also be to blame. A business cycle is the periodic rise and fall of the economy. It climbed as high as 25% during the Great Depression. That translates to one in four people who want to work but can't find gainful employment. The majority of this unemployment is likely cyclical in origin. The unemployment rate eventually began to fall again. So, it seems that maybe trying to understand the ups and downs of the economy may shed some light on the unemployment rate.

Frictional Unemployment: When the demand for and supply of workers are not balanced, frictional unemployment results. Businesses may be unaware of the available workforce, or workers may be unaware of the employment options in their region, both of which contribute to the problem. It might also be due to a shortage of qualified workers, a breakdown in machinery, a lack of necessary materials, and so on. Frictional unemployment refers to the unemployed time that occurs while a person is between jobs.

UGC Approved Journal
© UNIVERSAL RESEARCH REPORTS | REFEREED | PEER REVIEWED
ISSN : 2348 - 5612 | Volume : 04 , Issue : 13 | October – December 2017

Structural Unemployment: Multiple causes may contribute to structural unemployment. There might be a lack of cooperative aspects or a shift in the economic structure of society that causes this.

Technological Unemployment: "organizational intricacies, not innovations in manufacturing procedures" are to blame for technology-related joblessness. Improvements in management effectiveness may result in the replacement or closure of older infrastructure.

Disguised Unemployment: Unemployment and underemployment can go undetected in undeveloped countries. People are looking for work all year round, but there aren't enough jobs to go around. Due to the seasonal nature of farming and poor use of land and machinery, many rural and small-scale farmers are out of work.

Review of literature

(Khalid, 2017) studied "The Relationship between Unemployment and Economic Growth in India results showed that, and the study's overarching goal was to determine how the Indian economy's expansion affected the country's unemployment rate. Descriptive statistics, Granger causality, and the Ordinary Least Squares model were used to examine the relationship between economic expansion and joblessness both before and after the Hodrick-Prescott filter was used to compensate for non-stationarity in the time series data. According to the results of a Granger causality test, neither UNEMP nor GDP can be said to have caused the other. However, the estimated regression of unemployment and economic growth as explanatory variables shows that the impact of economic growth on unemployment is only 6% and is inversely related to each other, while the remaining 94% is due to other factors that are negatively affecting India's unemployment" rate.

(P. C. Mohanan) studied "employment and inequality outcomes in india" uncovered that India's rapidly shifting age distribution gives it a competitive edge in the job market over both industrialized and developing nations. Also, the rate of reduction in the adult working-age population has slowed, while the rate of increase for women has accelerated greatly in recent years. After eliminating the unemployment backlog, there will be a lot more people in the workforce, but it doesn't mean that the expansion in job opportunities will keep pace with the working-age population. In terms of GDP growth and a number of other economic indices, the performance of the economy in the nineties marks a substantial shift from that of preceding decades. Low productivity growth and a fragmented labor market have been highlighted as causes for worry, notwithstanding the rapid increase in the number of people working and the number of days they work during the previous decade. Due to institutional and social restrictions, the labor market has been segmented, making it difficult to provide the advantages of expansion to employees in underdeveloped areas, small towns, rural areas, and other economically disadvantaged groups. In big cities, income disparity between racial and religious groups has decreased, but it has increased in rural regions and smaller towns. While the Scheduled Caste and Muslim populations have gained the most, the Scheduled Tribe community has received the least. Along with the higher caste Hindu population, other religious groups like the Parsis and Sikhs have fared rather well. Inequality between the sexes is also a prominent policy focus now.

(Chand et al., 2017) studied "Economic Growth and Unemployment Rate: An Empirical Study of Indian Economy" discovered that and Unemployment has long been a pressing issue in India. Unemployment is a worldwide issue, and forecasts show that it will become worse in India over the next several years, according to the International Labor Organization (ILO). The purpose of this research is to examine how the Indian economy's expansion has affected the country's unemployment rate. The research took GDP into account as a measure of economic expansion. The GDP and unemployment rate figures come from secondary sources such as the WorldBank database. The extent to which economic growth correlates with lower unemployment rates has been investigated via the use of correlation and regression analysis. Growth in the economy has been discovered to have a profoundly detrimental effect on the jobless rate. It was also shown that GDP is responsible for 48% of the causes behind changes in the unemployment rate. These results agree with the predictions of Okun's law and the findings of previous research.

(Digvijay & Bhujbal, 2017) studied "Factors affecting high unemployment in India" have discovered, and The study's focus is on illuminating the relationship between India's GDP and inflation rate and the country's unemployment rate. Information collected between 2000 and 2017 was utilized for analysis. The unemployment rate, GDP, and inflation rate in India are all studied in connection to one another via the use of regression analysis. Regression analysis is a method used to discover relationships between three or more variables. Economic growth and inflation rate are two independent variables, while unemployment is the dependent variable. Linear regression analysis is used to illustrate the study's results. Using linear regression analysis, we can easily ascertain how India's GDP and inflation rate affect unemployment in India. Gross domestic product has a considerable effect on the jobless rate.

Growth in India's GDP has been accompanied by a decline in the country's unemployment rate. The unemployment rate in India is not significantly affected by the inflation rate.

(Levine, 2013) studied "Economic Growth and the Unemployment Rate" have discovered, and Congress is worried about the continually high unemployment rate because of its effect on the economy and the deficit. With a 9.5% unemployment rate, the economy finally started to recover from the 11th postwar recession in June of 2009. In October 2009, it hit an all-time high of 10.0%. As time has passed, the incidence rate has gradually decreased. Despite falling below 8% in the fourth quarter of 2012, the unemployment rate is still rather high relative to other eras. In the majority of recessions that have occurred after World War II, a complete percentage point drop in the unemployment rate has taken place after a minimum of eight months. After the conclusion of the crisis in 2001, when the jobless rate was 5.5%, the pace of decrease slowed to a crawl. After around 312 years, the rate only dropped by half a percentage point. In comparison, the greatest unemployment rate in the postwar era of 10.8% was recorded in the start of the recovery from the severe recession of 1981-1982. In such case, the rate dropped by more than one percentage point in only eight months. Though some predicted a similarly rapid decline in the unemployment rate after the 2007–2009 downturn, the actual pace of progress has been more typical of the so-called jobless recoveries that followed the 2001 and 1990–1991 downturns.

Conclusion

Focusing on the "effect of economic growth on unemployment from 1990 to 2017, this research aims to better understand the connection between the two in India. The influence of economic growth on unemployment was analyzed using descriptive statistics for normal distribution, a Granger causality test to determine the direction of the relationship between variables, and an Ordinary least squares model. Gross domestic product (the true gauge of economic growth) and the unemployment rate were used as independent variables in the study. More so, descriptive statistics showed that the variable was not regularly distributed. After detrending the series filter at the first difference, the results of the stationarity test using the Augmented Dickey-Fuller (ADF) test showed that all of the variables were stationary. The Granger causality test also found no correlation between the two variables (GDP and UNEMP) or between UNEMP and GDP. Finally, the computed regression of unemployment and economic growth as an explanatory variable, for India, indicates just 6% influence of economic growth on unemployment and are negatively connected to each other. The low R-squared value indicates that this research does not fully account for the many influences on the trend of the unemployment rate. In light of these results, the research concluded that the strong association between economic growth and the unemployment rate does not hold true for the Indian economy".

References

1. Chand, K., Tiwari, R., & Phuyal, M. (2017). Economic Growth and Unemployment Rate: An Empirical Study of Indian Economy. *PRAGATI : Journal of Indian Economy*, *4*(02). https://doi.org/10.17492/pragati.v4i02.11468
2. Digvijay, D., & Bhujbal, N. (2017). *Munich Personal RePEc Archive Factors affecting high unemployment in India*. *110621*.
3. Khalid, W. (2017). The Relationship Between Unemployment and Economic Growth in South Africa: VAR Analysis. *Forman Journal of Economic Studies*, *17*(01), 1265–1271.
4. Levine, L. (2013). CRS Report for Congress Economic Growth and the Unemployment Rate. *Specialist in Labor Economics*, 1–10.