A Perspective on Economic Reforms on Generating Employment Opportunities in India in Current Global Scenario

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ABSTRACT

With advent of globalization and falling global trade barriers that led to a growth has contributed to flow of recession and development from developed economies to developing economies and from the developing economies to under developed economies. The full consequences of economic reforms of the new economic policies implemented in 1991 and working through the economic system of India has posted high growth rates. But World Bank forecasts the slow down of economic growth rate for India further low to 5.8 growth rate due to current global melt down. With worst sectored hits in terms of job cuts during recession are financial sector, followed by information technology and technology followed by telecom and mining. To change the trend and look for employment resurgence the government's role needs to be reconsidered. In terms of policy measures, it requires emphasis on inclusive growth and development programmes. The methodology adopted in the paper is based on the secondary data and attempt would be made to analyze the economic growth pattern and issues related to employment secondly review the employment policies of the government in current economic scenario.

Keywords: Economic growth, Employment pattern & Perspective.

PERSPECTIVE

The global crisis continues to unfold its self with the lags depending on the each economy's external economic linkages. With advent of globalization and falling global trade barriers that led to a growth and development prospective from developed economies to developing economies and from the developing economies to under developed economies, strengthening Raymond Vernon proposed " International Product Life Cycle theory" in context of international trade. According to this it can show a positive movement by referring to these economic activities facilitating optimality and rationality and reinforcing growth pattern. In similar prototype the recession will also flow in the same pattern across the economies both socially and economically with consideration of time lag within purview.

The impact of this global melt down on India's economic output has been viewed from perspectives of economist, politicians, financial analysts and others. The analysts particularly the economists have stated that the exports, IT sector, infrastructure and real estate sector, financial services are going to be worst hit in terms of profits or returns, cost cutting and employee down sizing. The consumer demand sector will show the decline because of increased unemployment and liquidity constraints in terms of cost cutting and salaries hike curtailed[1]. But on the optimistic front it will bring forward optimality by improving the customer experiences, reducing revenue leakages and operating leverages[2]. As the economy softens or the growth slows, a corporate down sizing or what economically we refer to as increase in unemployment is initiated and this is further fueled by reduced investments leading to reversed multiplier effect. Therefore to remain employed, employee must be confident focused and be competent particularly the service sector[3].

In fact the global economic movement in name of globalization has accelerated the process of divergence of work force. The problems of unemployment, casual work force and contractual employment, lower wage payments have manifested itself. Not only this, even the wage rate inflation trade off has become exploitative with increase in unemployment. Further, this course of recession is showing a downward trend and a disappointing pace of employment growth that can be attributed to various factors such as perks and benefits costs faced by employers, global crisis and structural changes causing decline in industrial returns and sluggish aggregate demand. The industrial growth witnessed a moderate slow down in the growth mainly due to manufacturing sector and stood at 9.2 percent by November 2007 when seen on comparative vigorous growth on preceding year that recorded a growth rate of 11.8 percent in 2006 (Economic Survey 2007-08). But the performance data currently depicts that industrial growth has shown a negative growth performance. This is indicative of lowering of per capita income and thus the over all well being of human population. This sector though contributes nearly third to GDP, The index of industrial production for October released by the government on 12th December 2008 showed that the factory output was falling at a rate of 0.4 percent change in the IIP index. Further the capital goods output growth was only 3.1 percent year on year from 18.6 per cent in September. The contraction is observed even in export sector that fell by 12.1 percent in October 2008 and 10 per cent in November 2008[4]. The IIP data for overall production of textile fabrics increased by 7.7 percent during 2006 – 07 and recorded a slower growth of 3.4 per cent up to December 2007. Currently the condition aggravates further and the 'textile industry of India' is passing through a rough phase with the decline in exports and domestic demand. The recession has hit employment significantly with 7 lakhs job already been cut in first nine months of current fiscal year and another 5 lakhs people to lose the jobs by end of march 2009[5]. The textile industry is looking up to government for spurt in investment financial support and technology up gradation scheme funds. The two major schemes referred are technology up-gradation Fund Scheme (1999) launched in 1999 and Scheme for Integrated Textile Parks launched in 2005. In Aviation sector the Jet Airways laying off 800 employees and announced further retrenchment, even went up to cost cutting by slashing the salaries of trainee co-pilots by 90 per cent . Even Wipro has issued recruitment letter only to 6000 fresher as compared to 12000 last year. The campus recruitment in IT companies is expected to fall by 40 per cent[6]. Gems and Jewellery industry that emerged as a strengthened player contributed 12 percent to country's merchandise exports in 2006-07 and then showed deceleration due to reduction in trading activities and US slow down. The industries further bring a grim picture of 30% cut in production which would further generate unemployment due to retrenchment of workers[7]. Thus to change the trend and look for employment resurgence the government's role needs to be reconsidered. In terms of policy measures, it requires emphasis on inclusive growth and development programmes. In this paper attempt would be made to analyze the economic growth pattern and issues related to employment secondly review the employment policies of the government in current economic scenario.

ECONOMIC GROWTH

The full consequences of economic reforms of the new economic policies implemented in 1991 and working through the economic system of India has posted high growth rates. The pace of economic improvement showed an increasing trend during the former five years till 2007. The rate of growth of per capita income measured by per capita GDP at market prices grew annually at rate of 3.1 per cent from 1980-1992, then accelerated to 3.7 per cent from 1992-2003. This per capita growth rate doubled to an average of 7.2 per cent by 2007. But the sustenance of this growth potential is becoming a challenge in today's global recession. When we talk about the economic fluctuations through business cycles in phases of Boom, Prosperity, Recession, Depression we are generally referring to our national out put. An economic recession is broadly defined as down turn in the gross domestic product (GDP) of a nation for two successive quarters i.e. Six months. If this GDP drops by at least 10 percent it is referred to as depression. We refer prosperity as the growth in GDP more than the average trend of that economic system. Conceptually the recession could of different types:

i) L shaped or Protracted as seen in Japan economic stagnation of 1990s.
ii) V shaped or brief recession which is short and shallow as seen in US in 1990 – 91 and 2001.
iii) U shaped or stubborn recession where the growth declines and stays at base and then gradually recovers. The specific characteristics are stagflation.
iv) W shaped or double dip as seen in US economy in 1980 and 1981-82.

Even today the trend around the world is recession where the IMF states that the major economies like United States, UK, Japan and Germany are showing declined GDP and forecast is that the worst is still to come (Table 1).

Table 1: GDP growth rate of some selected countries.

Country	**GDP growth rate**			
	2006	2007	2008	2009 (forecast)
United States of America	2.8	2.0	1.4	- 0.7
Germany	3.0	2.5	1.7	-0.8
United Kingdom	2.8	3.0	0.8	-1.3
Japan	2.4	2.1	0.5	-0.2
India *	9.7	8.7	7.8	6.3

Source: India - Economic Survey 2007 – 08, complied from IMF data in 'Business Today', November 30 2008.

An economic growth generated from economic reforms led the economic growth of India from 5.0 in 1991 to 8.1 in 1997-98, the growth slowed during period of 2001-02, 6.0 per cent and then accelerated again to 9.7 in 2006 and slowing down again to 7.8 due to global melt down. The fore cast is that the economy may further slow down to 6.3 in the year 2009. World Bank forecasts the slow down of economic growth rate for India further low to 5.8 growth rate. Over the last few quarters evidence has accumulated that the trend rate of growth is creeping up to 7%. This needs to have a re-look in terms of economic planning to meet the objective of 11^{th} five year plan of 9 per cent growth rate. Much of the growth acceleration had, however, come from an increase in the rate of investment and supported by consumption. But due to consumption being an endogenous factor, in this economic slow down the consumption will decline. Therefore to prevent the economy from moving into depression the economic boosters of the government are warranted. Government has taken measures in this direction and continues to boost economy by increasing liquidity, lowering interest rates, cutting excise by 4%. Even the states seek ` 20,000 crores, to offset the economic slowdown. This would be used by the states as autonomous investments in infrastructure, roads and social sector. This autonomous investment will have a multiplier effect.

With worst sectored hits in terms of job cuts during recession are financial sector, followed by information technology and technology followed by telecom and mining[8]. Therefore the resurging growth requires a structural transformation of the economy. One existing initiative (suitably strengthened and dynamically pursued), that will contribute to saving the economy from stubborn recession would be structural transformation of the economy through the inclusive growth. The fundamental structural problem of the Indian economy is that $2/3^{rd}$ of the population is still dependent on agriculture. A basic assumption was that shortage of capital goods in relation to employable persons constituted a fundamental constraint on growth in the economy. Therefore the planning process made no adequate attempt to define an independent employment strategy at the rural level and focusing on primary sector; the focus on economic growth was viewed as essential for improving the employment situation. Thus, in the Five Year Plans, the generation of employment has been viewed as part of the process of development and not as an objective, or to be pursued independently.

EMPLOYMENT PATTERN

The approaches adopted for tackling the task of unemployment or generating employment has varied from time to time. Even the basis of measuring labour force and employment varied. In fifth (1974-1979) five year plan the basis of measurement was ‘labour time disposition’ as per current activity i.e. Current Weekly Status. In the sixth plan and Seventh (1980-1985, 1985-1990) it was based on Usual Principal Status (UPS) (Employment projections were made in terms of standard person Years). In eight plans again Current Weekly Status was preferred over UPS. Tenth five year plan adopted Current Daily Status after the recommendations made by the Planning commission report on Special Group on Creation of 10 million employment opportunities[9]. Further, in the preliminary years of five year plans reliance was placed primarily on the expectations of a rapid industrial development and employment generating schemes of government. These prospects did not materialize and it was observed that the rate of growth of employment was generally much lower than the GDP rate of growth of the economy. Successive plans, strategies, policies and programmes are, therefore, re-structured to bring about a special focus on employment generation as a specific objective. The emergence of special schemes like Pradhan Mantri Gram Sadak Yojana, Indra Awaas Yojana, Swarnjayanti Gram Swarozgar Yojana and many others, to provide wage employment through public works programmes and schemes to promote self-employment and entrepreneurship through provision of assets, skills and other subventions to the unemployed and the poor. Table 2 depicts that employment growth during the year 1999-2000 to 2004-05 showed a rising trend 1.25 per cent per annum to 2.84 per cent. Even the unemployment rate also rose. The incidence of unemployment on CDS basis increased from 7.31 per cent to 8.28 per cent. This has been attributed drop in employment in agriculture primarily.

Table 2: Employment and Unemployment in million person years (by CDS Basis)

	In Millions				**Growth per cent**		
	1983	1993-94	1999-00	2004-05	1983-93	1993-00	1999-05
Population	718.10	893.68	1005.05	1092.83	2.11	1.98	1.69
Labour Force	263.82	334.20	364.88	419.65	2.28	1.47.	2.84
Workforce	239.49	313.93	338.19	384.19	2.61	1.25	2.62
Unemployment Rate	9.22	6.06	7.31	8.28			
No. of Unemployed	24.34	20.27	26.68	34.74			

Source: Economic Survey 2007 – 2008, Government of India.

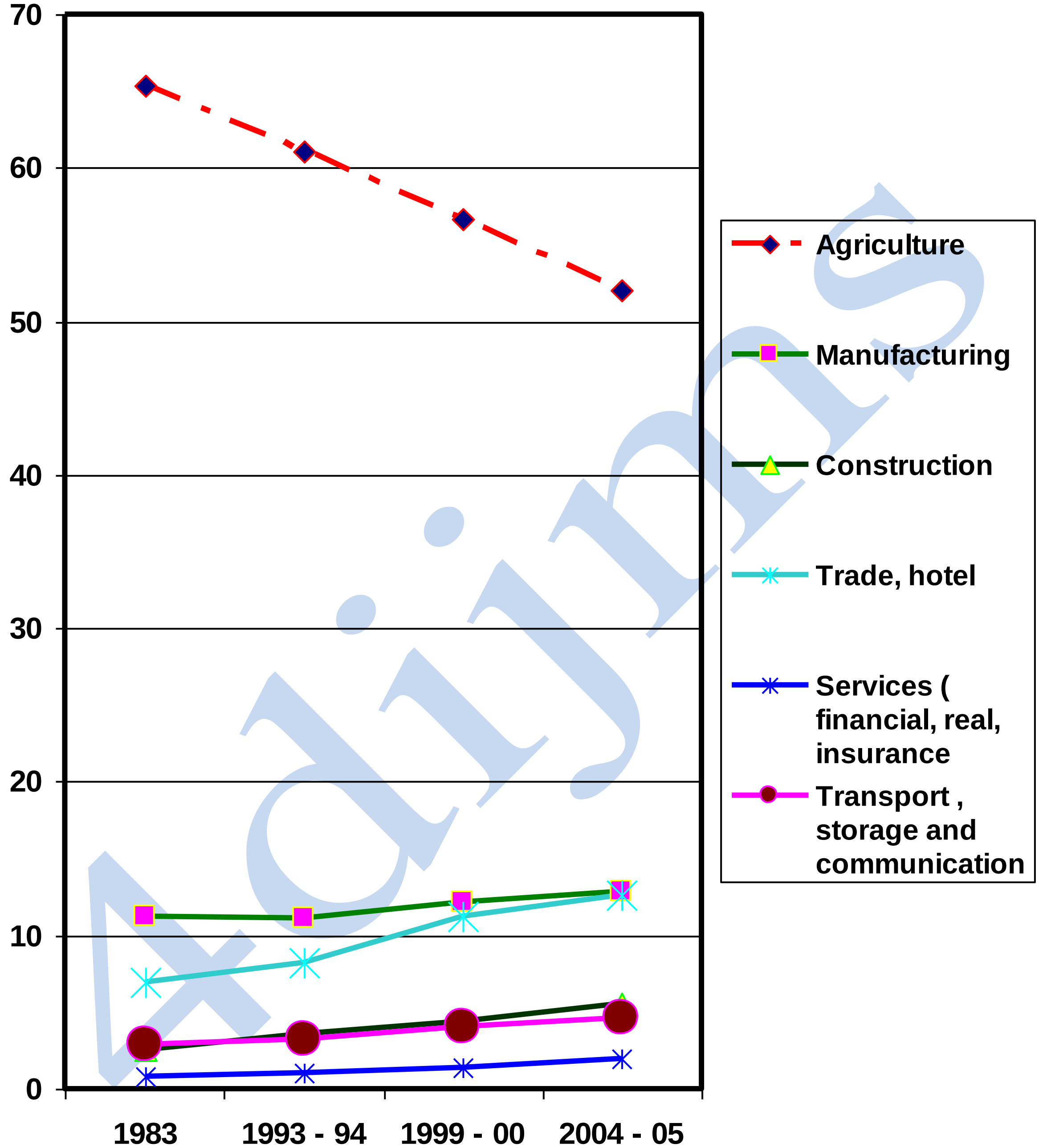
The major sectors whose share in employment increased are transport, storage and communication along with financial services to name a few as has been brought about by the table 3.

Table 3: Sectoral Employment Shares by Current Daily Status

Industry	**1983**	**1993 -94**	**1999 - 00**	**2004 - 05**
Agriculture	65.42	61.03	56.64.	52.06
Mining and Quarrying	0.66	0.78	0.67.	0.63
Manufacturing	11.27	11.10	12.13	12.90
Electricity, water	0.34	0.41	0.34	0.35
Construction	2.56	3.63	4.44	5.57
Trade, hotel	6.98	8.26	11.20	12.62
Transport, storage and communication	2.88	3.22	4.06	4.61
Services (financial, insurance real, business)	0.78	1.08	1.36	2.00
Services (personal, social, etc)	9.10	10.50	9.16	9.24
Total	100.0	100.0	100.0	100.0

Source Economic Survey: 2007 – 08, Government of India.

Figure 1: Sectoral employment shares
(Current daily status – ES 2007 – 08)



Now these were the sectors showing growth and contributing to GDP when economy was showing a robust growth of around 9 per cent on average. Now with recession setting in globally these sectors are worst hit in terms of reducing employee. The financial sector has cut jobs by 1,41,350 followed by auto industry with 41,800 down size, telecom with 36,370 cuts[8]. The increment in unemployment is feeding the recession even in India as the economy is open therefore not insulated to global melt down. Therefore it is advocated that government should consider the economic fluctuations and its probability of pattern of occurrence.

DISCUSSION AND SUMMING UP

Economic growth and its sustenance is an integral part of all economic planning at macro level. The main objective is to allocate and utilize the resources to adequately raise the incomes of the mass population and increase their standard of living and secondly to provide basic services to all segments of population. The formulation of India's liberalization (SAP) can be traced to the 1980's, with enforcement, subsequent modification, reformulation and intensification in early 1990's with aim for relatively open economy. India's New Economic Policy (NEO) launched in July 1991 is driven by a growth centred development vision. Its major emphasis was on degradation of domestic industry, capital intensive, only specialized manpower absorption (negative aspects), privatization, liberalization, increased competition and reduction in regulation of foreign trade, increased exports, and enhanced foreign investment (positive aspects). Liberalization has focused on internal and external sector giving rise to growth-inducing impulses that international economy can provide at varying levels of support and thus intensified globalization. In the context of Indian's economy these policies have had a mixed impact. While globalization has limits, so does economic nationalism. While some state protection of the national economy is justified in relation to external markets, excessive amount of it is not consumer friendly.

All the large business firms around the world are concerned with sustainable advantage and growth. Therefore the global crises will lead a large number of industries such as telecom, financial services to bring in changes in their organizations. The Indian companies will have to have the confidence rebuilt and commitment to their scale of operations in the global markets. As the economy softens or the growth slows, a commercial down sizing or what economically we refer as increase in unemployment is initiated the state or government needs to play a major role by generating employment opportunities. This is so stated as the past experiences and theoretical prescriptive approach considered, when the business moves into recession and heads towards contraction, the cyclical pattern in inevitable but the span can be influenced by adopting the monetary and fiscal measures expansionary in nature. The industrial growth witnessed a moderate slow down in the growth mainly due to manufacturing sector by November 2007, currently negative growth performance. The implications may not be bright even from the social aspect as may create social disorder. The reduction in the interest rates done by the government is a positive move. Therefore the Working Group on labour Force and Employment Projections Eleventh Five year Plan, GOI, Planning Commission September 2008 has also proposed at least 10 million more agricultural workers should find gainful employment in other activities than in normal scenario. Faster agriculture growth will boost economy that still contributes 52 per cent employment to work force approximately. But the contribution to GDP Share declined to 18.5 percent in 2006-07. This sort of inclusive growth will serve dual purpose one it will be a big opening for rural growth and market where agriculture sector will grow. It will also have implications by opening of the service sector as fringe growth.

SUGGESTIONS

Today, under decentralized regime dominated by new economic policies, agrarian movement and the inclusive growth generates new opportunities. The migration that had been witnessed from rural to urban may revert back due to increment in unemployment as a result of corporate down sizing. Therefore it is advocated that growth of non agriculture employment should be stepped up. Secondly, if this unemployment is to be absorbed and growth boosted a reversal is required in terms of generating growth in organized sector that has been showing a negative employment growth during last decade. The private sector, including agriculture, micro, small and medium enterprises will have to play a critical role in absorbing the unemployed. Our policies need a re-look in order to create entrepreneurship that can flourish and absorb unemployment.

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