

Assessing The Extent of Urban and Rural Unemployment and Contrasting it With the GDP Growth During that Period: Provisions of Possible Solutions to the Above Concern

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DOI: 10.46609/IJSSER.2025.v10i02.020 URL: <https://doi.org/10.46609/IJSSER.2025.v10i02.020>

Received: 28 Jan. 2025 / Accepted: 28 Feb. 2025 / Published: 6 March 2025

ABSTRACT

The importance of census and the lack of it in 2021 has adversely impacted policy measures that should have been in place for increasing rural and urban employment. Besides, just measures undertaken by the government, the private sector has to be sensitivised and encouraged to invest in the agricultural and MSME areas to reduce unemployment of the marginalised sections. Various schemes by the government can only be stop gap arrangements till the economy manages to generate both the investment and demand in an automatic manner.

Keywords: Demographic Dividend, GDP, lopsided nature, jobless growth, the organised and the unorganised sector, Demographic Transition Theory, purchasing power parity

Research Question: This paper would attempt to analyse urban and rural unemployment in India. Does unemployment exist? If so, is it the same for rural and urban areas? What are the possible reasons for this malady? Has GDP been increasing during the relevant period? To what extent has growth trickled down to the bottom percentile of the Indian Population? What has the government done to reduce unemployment? These and other such questions would be attempted in the course of this paper?

1. Introduction

The twin concepts of economic growth and unemployment are entwined in each other. Rapid Economic Growth normally reduces unemployment. The problem in India is that though India's GDP (Gross Domestic Product) increased rapidly, the extent of expansion resulted in a limited number of well-paying employment opportunities. Vijay Joshi has pointed out the *lopsided nature of India's Growth* (Vijay Joshi: India's Long Road), "India's entire workforce increased by 63 million persons between 1999-2000 and 2009-10. 22 million of these 44 million became

unorganised workers in the organised sector, while the number of official workers in the organised sector fell by 3 million.” This has occurred even while all growth indicators including the GDP have shown a strong economic improvement, unemployment continues to increase. Other major indicators have shown an improvement (savings, investments, reduction in poverty, etc), but unemployment continues to rise.

Lack of job possibilities may lead to stifling long term economic growth by a reduction in purchasing power leading to a drop in consumption demand. This could be understood if one looks at the marginal propensity to consume(MPC) of the higher percentile of the population compared to the lower percentiles.

India’s challenge continues to be high unemployment. This is attributed to the type of development of economic activities, the substitution of labour by capital and an increase in workforce supply. India was facing these challenges as early as the 1980s. In the great reform period of the 1990s, there was an attempt to curb the problem of both rising unemployment and stagnant growth, but unfortunately the policies have lagged behind both economic and unemployment growth and there are concerns of jobless growth.

India’s economy besides being divided into rural and urban areas as far as employment is considered there is the organised and the unorganised sector which provides job opportunities for its workforce. An organised sector is one which is registered with the government and which has to abide by all laws and acts that have been stated by the government for various business. The workers who work in this sector are those that are assured of their salary at the rate that is decided in the contract between employers and employees. They are also secured for various ailments and illnesses according to the law. As these workers are permanently employed, for them to be evicted, stringent procedures need to be adhered to. This sector primarily exists in the urban areas. On the other hand, the unorganised sector exists both in the rural and urban areas. The firms that hire unorganised labourers are not governed by any act or law. The unorganised sector itself is not registered under any act of the government. Their employees are most likely to be contractual and there is no known commitment between the employer and employee. This sector includes those small size enterprises, workshops where most of the employment is of low skilled and maybe unproductive. They follow hire and fire policies according to the demand for their product.

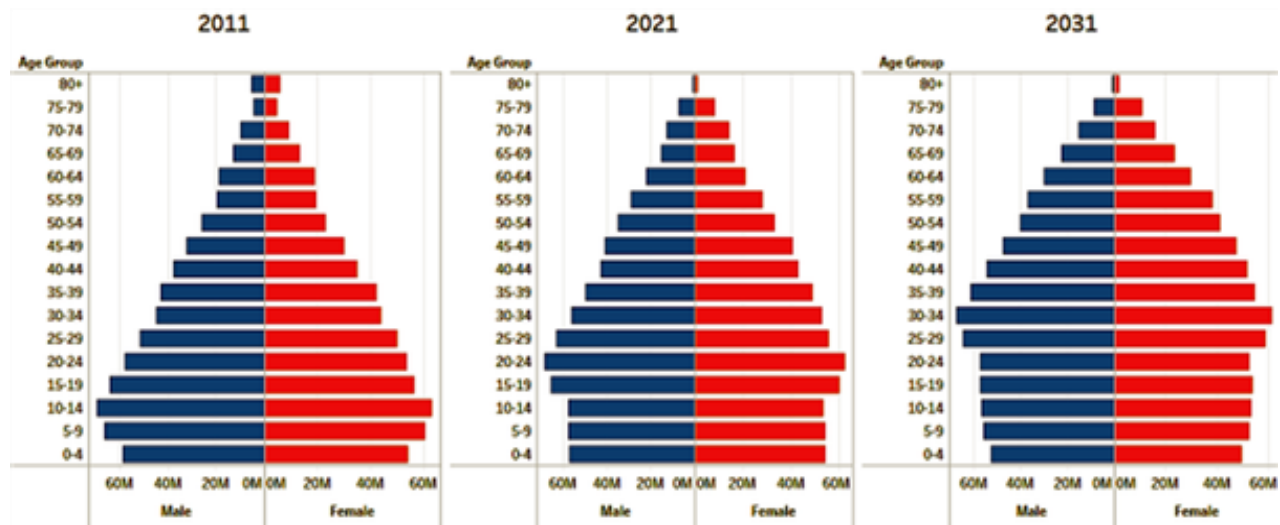
2. India’s demographic dilemma

India is currently in the third phase of the *Demographic Transition Theory*. The first stage consists of a high birth rate and high death rate. During this phase there may or may not be any increase in the rate of growth of population. The second phase which India entered in 1921 is one

where there is a high birth rate and a low death rate. During this phase, there is a continuous increase in the population and in the case of India it reached up to 2.2% per annum. This continued until the end of the twentieth century. The third phase is where the birth rate is declining and the rate of population growth is also on the decline. It is stated that India has now reached the replacement levels, which means that the birth rate is equal to the death rate in almost all states in India except for a few states namely Bihar, Uttar Pradesh, Jharkhand, Meghalaya, and Manipur (NFHS-5 2019-21).

This situation has led to the independent workforce being higher than the dependent population. The dependent work force is from the age group 0-15 years and above 59 years. The independent age group is from 16-58 years. There may be some variation in this data as the actual workforce available for appointment may not be 15 years but 22 or 23 years due to the increased emphasis on education before entering the workforce. The upper age limit too may be more than 59 given the longevity that India has achieved. The figure below clearly indicates the large number of the independent population. It is important for India to make use of the large number of independent workforce which is also known as “demographic dividend”.

Figure 1: India’s Demographic Structure



Source-ideasforindia.in

China has made use of the demographic dividend effectively and increased its export potential leading to an increased GDP. It took advantage of this dividend as there were an adequate number of jobs that were available. For India to make use of this advantage, it is necessary to increase the employment potential of the economy.

3. Definition of Poverty Line:Tendulkar and Rangarajan

Tendulkar's poverty line was calculated by using the consumption of items like cereals, pulses, milk, edible oil, non-veg items, vegetables, fresh fruit, dry fruit, sugar, salt.

1. It took into account housing, footwear, clothing, education, medical and entertainment.
2. The Tendulkar Committee(TC) formulated the Uniform All India Poverty Line
3. He also computed new poverty lines for rural and urban areas for each state based on the uniform poverty line basket.
4. The committee took into account inflation and followed price adjustment features.
5. It measured changes in patterns of consumption
6. The TC used the mixed reference period instead of uniform reference period and the purchasing power parity method.

Rangarajan Committee

The Rangarajan Committee(RC) used data from CMIE(Center for Monitoring Indian Economy).

1. The RC said that the poverty line should be based on a normative level of adequate nutrition(ideal and desirable level of nutrition).
2. Non-food expenses are to be based on their general behaviour.
3. Nutritional requirements based on ICMR(Indian Council of Medical Research) norms that depend on age, gender and activity in all India, rural and urban regions.
4. The Committee found that it was 2090 kilocalories in urban areas and 2155 kilocalories in rural areas.
5. In this, they took into account the proportion of protein and fat content for both rural and urban areas.
6. They used the modified mixed reference period which was 365 days for clothing, footwear, education and durable goods; seven days for edible oil, egg, fish ,eat, etc; 30 days for remaining food items, rent, fuel, light, taxes.

Tendulkar's committee estimated a lower level of people living under poverty as compared to Rangarajan's committee.

The poverty ratio did not fall, and the number of people in poverty rose substantially. The general impression was that India was a slow-moving snail or tortoise. The country was thought of as ‘a country of the future that will always remain so’, a country that would never get its act together. Things changed from 1980 onwards, and especially after the economic reforms of 1991.

According to the IMF World’s Economic Update July 2024, India is the fastest growing major economy in the world. The poverty ratio has more than halved, and the absolute number of poor people has also fallen significantly.

Slow growth and neglect of human development leads to a comprehensive failure in poverty alleviation. The headcount poverty ratio in India, which measures the proportion of poor people below an officially defined poverty line, was broadly constant between the 1950s and 1977/78 (see Table 2.4, and Datt and Ravallion 2010). In the 1950s, more than half the population was below the poverty line, a situation that remained unchanged throughout the first three post-independence decades. Since population growth was rapid, this implied large additions to the absolute numbers of poor people. The number of people in poverty rose by nearly 120 million over the period, from 210 million to 329 million (see Table 2.4).

Table 2.4 ALL-INDIA POVERTY AND INEQUALITY

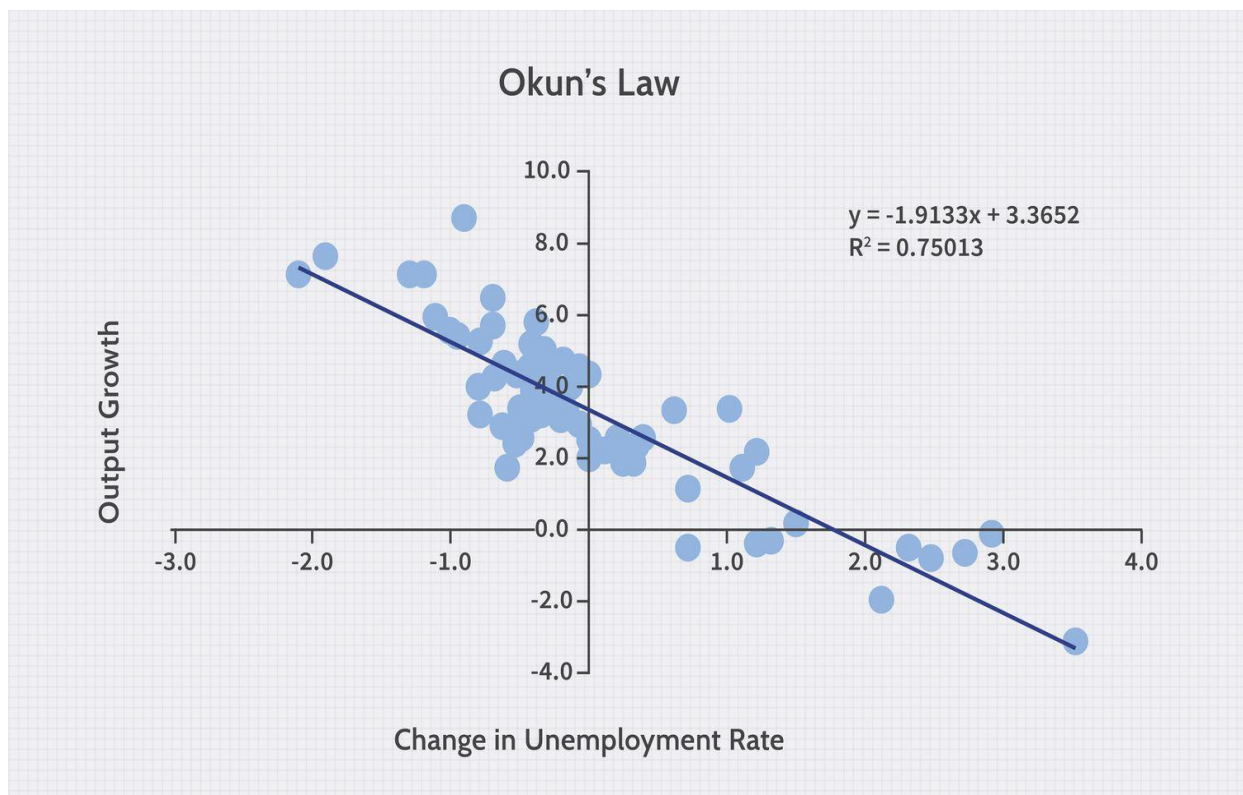
Year	Headcount Poverty Ratio (%)			Inequality: Gini Coefficient (%)
	Old Definitions	Tendulkar Definition	Rangarajan Definition	
1950–1960	52.7 (210 million)	n.a.	n.a.	35.0 (RG: 33.7; UG: 38.2)
1960–1970	53.3 (262 million)	n.a.	n.a.	31.5 (RG: 30.3; UG: 35.3)
1973/74	54.9 (321 million)	n.a.	n.a.	29.2 (RG: 28.5; UG: 30.8)
1977/78	51.3 (329 million)	n.a.	n.a.	32.1 (RG: 30.9; UG: 34.7)
1983	44.5 (323 million)	n.a.	n.a.	31.3 (RG: 30.1; UG: 34.1)
1993/94	36.0 (320 million)	45.3 (404 million)	n.a.	30.7 (RG: 28.5; UG: 34.4)
2004/05	27.5 (302 million)	37.2 (407 million)	n.a.	34.7 (RG: 28.1; UG: 36.4)
2011/12	n.a.	21.9 (269 million)	29.5 (363 million)	35.9 (RG:28.7; UG:37.7)

Source: Rangarajan and MahindraDev IGIDR December 2020

4. GDP and Unemployment

Okun's Law states that when unemployment falls by 1%, gross national product (GNP) rises by 3%. Another version of this law focuses on the relationship between unemployment and GDP where a percentage increase in unemployment causes a 2% fall in GDP.

Figure: Graphical representation of the Okun's Law



Source: Investopedia

4.1. Relationship between GDP and Unemployment Rate

The Okun's Law as stated above has already indicated a negative relationship between GDP and unemployment. Another study is the auto-regressive distributed lag model (ARDL Model) approach which also indicates that unemployment significantly impacts GDP negatively. It also indicated that inflation significantly increased GDP. The conclusion indicates that unemployment and inflation significantly affects GDP. Unemployment can not be zero even if the economy is operating at full capacity due to frictional and structural unemployment.

Frictional unemployment is determined by the time spent on matching workers and jobs. This period can vary quite a lot due to the imperfect information regarding:

1. Job vacancies
2. Relative geographic immobility of the workers
3. Wage rigidity

Sectoral shifts happen quite often in an economy due to the demand for various goods that shift over time. This results in time taken by the worker to adjust to these sectoral shifts.

Natural Rate of Unemployment is defined as the rate of unemployment at which the economy is operating at full capacity. This type of unemployment could be associated with NAIRU (Non Accelerating Inflation Rate On Unemployment). If the actual unemployment falls below NAIRU, inflation will rise quickly as employers will pay higher wages to attract workers. If, on the other hand, the actual unemployment is higher than NAIRU, inflation will be lower.

Natural unemployment is the unemployment rate that persists in a well functioning healthy economy that is considered to be at full employment. It is a hypothetical rate of unemployment and suggests that there is never something known as 'zero unemployment' in an economy. It is the unemployment that exists when the labour market is in perfect equilibrium.

Structural unemployment is a longer lasting form of unemployment caused by fundamental shifts in an economy.

Cyclical unemployment results from cycles of economic upturn and downturn. It is caused by the restrictions of demand in the market which are usually due to recession or depressions such as pandemic, wars, etc.

Seasonal unemployment occurs when people are unemployed at particular times of the year when demand for labour is lower than usual. It is that temporary time period when the number of available employment opportunities decreases.

Disguised unemployment is also known as hidden unemployment as it occurs when part of the labour force is left either without jobs or appears redundantly such as when the productivity of the workforce is effectively zero.

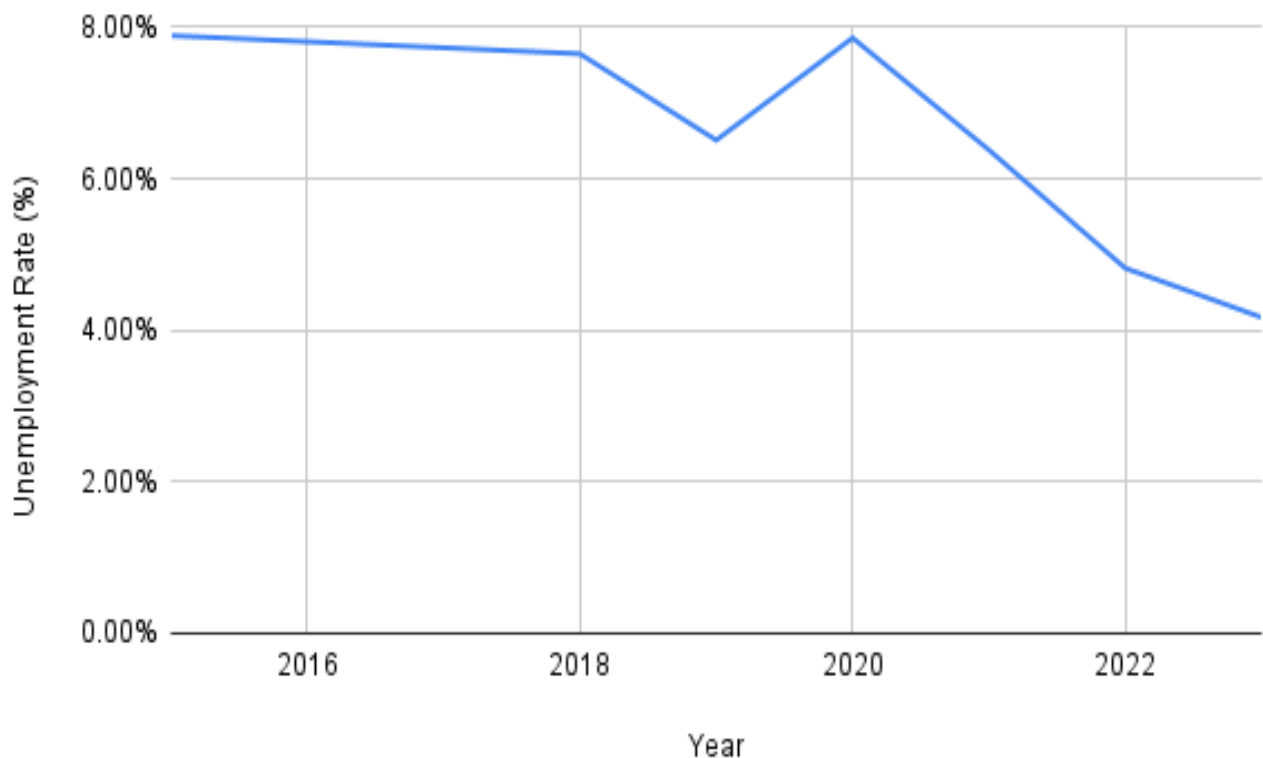
Jobless Growth refers to a situation where economic growth does not lead to job creation. This phenomenon occurs when a country emerges from a recession and despite an expanding economy unemployment remains the same or worsens. In India, jobless growth has become a significant problem. With a projected growth rate of 6.9% in 2023, unemployment is at a high of 7.8%. (Ministry of Labour and Employment, GOI)

Year	Unemployment Rate (%)	Annual Change
2023	4.2%	
2022	4.82%	-1.56%
2021	6.38%	-1.48%
2020	7.86%	1.35%
2019	6.51%	-1.14%
2018	7.65%	-0.08%
2017	7.73%	-0.08%
2016	7.81%	-0.08%
2015	7.89%	-0.09%

Source:<https://www.macrotrends.net/global-metrics/countries/IND/india/unemployment-rate>

Unemployment as a percentage of a total labour force

Unemployment Rate (%) vs. Year



Source-Own Source

4.1.1. Methodology

The methodology that had been used by the world bank which is the main source for all the information given above is in the following form:

- The standard definition of unemployed persons are those individuals without work, seeking work in a recent past period, and currently available for work, including people who have lost their jobs or voluntarily left work. In addition, persons who did not look for work but have an arrangement for a future job are also counted as unemployed (World Bank, Glossary).
- Use of surveys: Household surveys and population census were utilised to collect the required data

- The Population Census is collected once in ten years for India. It was not collected in 2021 due to the pandemic. Enumerators physically visit each and every household in the country and ask the populous to answer a questionnaire. This questionnaire is a very well thought out one, taking into account that at times direct questions may not be correctly answered. They include a certain extent of subtlety which helps in obtaining the right answer but not through a direct manner.
- Most of the time, there is validation and rechecking of a particular data obtained through many ways. For example, the income earned by the household could also be corroborated by the number of holidays taken, how many times did the household travel abroad, which schools the children go to, electricity bills, areas where they reside, etc.

The unemployment figures according to PLFS are indicated in the table below.

Unemployment rates (in per cent) according to the usual status (ps+ss) for the persons of age 15-29 years estimated from PLFS (2019-20), PLFS (2020-21) and PLFS (2021-22)

sector	unemployment rate								
	PLFS (2021-22)			PLFS (2020-21)			PLFS (2019-20)		
	male	female	person	male	female	person	male	female	person
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
rural	11.4	8.5	10.6	11.6	8.2	10.7	13.8	10.3	12.9
urban	15.8	21.6	17.2	16.6	24.9	18.5	18.2	24.9	19.9
rural+urban	12.6	11.8	12.4	13.0	12.5	12.9	15.1	14.6	15.0

2021-22 refers to the period July 2021 – June 2022 and likewise for 2020-21 and 2019-20

According to the table above, there has been a significant decline in the unemployment rate from 2019 to 2022. This would have to be corroborated by data from other sources, as census did not take place in India in the year 2021.

The Extent Of Unemployment From 2020-21 Onwards And Possible Reasons And Probable Solutions

2019-2021 were covid years, where due to lockdown during various points in time casual labourers went back to their villages leading to unimaginable distress and hardship. The rate of unemployment during this time period was at its highest. According to PLFS resort, it was 4.2% in 2021. Since then, the economy has been achieving the status of one of the fastest growing economies of the world. The World Bank figures have indicated the trend for GDP stated below.

Table: India's GDP 2020-23

Serial Number	Year	GDP
1.	2020	-5.78%
2.	2021	9.69%
3.	2022	6.99%
4.	2023	7.58%
5.	2024(expected by RBI)	6.6%

Source- World Bank

According to india's unemployment report of 2024 created jointly by the Institute for Human Development and the International Labour Organisation(ILO), India's working population increased from 61% in 2011 to 64% in 2021 and is projected to reach 65% in 2036, but the percentage of youth involved in economic activities has declined to 37% in 2022.

According to CMIE (Centre For Monitoring Indian Economy) an independant think tank, the unemployment rate in India was 7.8% in September 2024, a decline from 8.5% in August 2024. The labour participation rate fell from 41.6% to 41% and the employment rate from 38% in August to 37% in September.

Another survey by the Periodic Labour Force Survey, PLFS(released by Government of India by Union Ministry of Statistics) indicated an increase of labour participation from 50.7% in 2017-18 to 63.7% in 2023-24 and for the same period in urban areas it increased from 47.6% to 52%.

Analysis of Relation Between GDP and Unemployment

The government is extremely keen that unemployment should decline at the same level that GDP is growing but this requires

- inclusive growth
- formalisation of the labour market
- improving employment opportunities
- promoting digital empowerment.

The problem that India faces is that the growth in GDP is primarily from the service sector which is highly technical and capital intensive. This sector provides limited opportunities to the illiterate informal labour force that exists in rural areas. Since the 2020s, there has been a fairly robust growth in the agricultural sector clocking 4.18% (according to the latest economic survey estimates). The problem that is preventing a reduction in employment figures is the growth of the manufacturing sector. In FY 2022-23 the manufacturing sector recorded an annual growth rate of 4.7%. The main contributor to this growth are:

- Automotive sector
- Engineering
- Chemicals
- Pharmaceuticals
- Consumer Durables.

All these sectors are primarily capital intensive in nature impacting the employment of labour.

It is this small scale manufacturing sector, which has to be encouraged and developed to employ labour intensive technology such that their growth rate would result in an increase in employment opportunities for the unskilled informal labour. The two sectors which can help in reducing India's unemployment rate are the agricultural sector and its allied activities and the encouragement of medium, small and micro industries (MSMI).

Government Policies Towards Reduction of Unemployment

The government of India has instituted various employment generation schemes for example Atmanirbhar Bharat Rojgar Yojna (ABRY), Pradhan Mantri Rojgar Protsahan Yojna (PMRPY), National Career Service (NCS) and Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA).

All the above schemes would definitely ensure minimum wages for all who are seeking employment. These labourers are used to enhance infrastructural facilities like construction of wells, dams and canals and also of roads and logistics.

All the above schemes come under the capital investment expenditure incurred by the government. This would definitely lead to an increase in the saving potential of the labourers and thus link it to increase investment in the economy. It would give impetus to the private sector to increase its investment in the economy, furthering the impact on savings and investments.

There are two primary ways in which employment can be encouraged. One is through increasing investment which should be from both the public and private sector and the second is through

increased demand from all sections of the society such that it encourages production and subsequent linkages.

Safeguarding the interests of the marginalised unemployed sections of society is in the hands of policy measures that the government initiates and regulates.

Conclusion

Unemployment figures in India are normally corroborated with the ten yearly census that is conducted by the government of India. Due to covid, from 2020 to 2021, the census of the 20s decade did not take place. It was expected that once the pandemic was behind the economy the census would be conducted but till date it has not happened. It is the first time in 150 years after 1881 that the decadal census has been delayed. Three countries namely UK, China and the US have completed their census exercise, but the Indian government has been delaying conducting it.

The reasons could be that the government might want to wriggle out of innumeration the population sizes of Other Backward Class(OBCs) as this is an important vote bank for most states going in for election. The second reason could be that the result of the census may not confirm the hype about growth rates of certain religious groups which has become a standard rhetoric during campaigning for the ruling party. Third, the data on the fertility rates of religious groups may also present inconvenient truths. Fourth, claims of achievement in human development and excess to amenities might not be in fact the correct position and fifth the figures might not be in tune with those that have been indicated by PLFS and other surveys.

The census is a unique exercise which gives enumeration with no sampling errors. The other ways that the data can be collected is through NSS(National Sample Survey), Periodic Labour Force Surveys(PLFS) or Health Management Information Systems(HMIS). It is through these surveys that the Public Distribution System(PDS) and Mahatma Gandhi Rural Employment Guarantee Act(MGREGA) are implemented. The census indicates or brings out a lot of data on housing, ST and SC households as well as the number of households headed by women. It also indicates age, sex, occupational characteristics and migration data gives a macro picture. For example in the early 1990s, the country realised that there was an adverse sex ratio which was brought into the forefront by the census data. It is on the basis of this that sex selection tests and sex selective abortion was banned. It is also because of this data that schemes such as Beti Bachao, Beti Padhao were implemented. Thus it becomes necessary for the economy to undertake a census such that it could implement important schemes that help in improving employment opportunities especially of women as well as taking advantage of the demographic dividend.

Besides the necessity of census figures, it is important to measure the impact of the schemes that the government has implemented. The bottom line is to increase investment in the economy and increase demand as well as reduce inequalities of income. The policy emphasis should be the upliftment of the marginalised, unemployed labour sections in the economy. It is also essential to bring women into the mainstream to increase their empowerment and increase GDP numbers. All of this would go a long way in reducing unemployment and taking advantage of demographic dividend for the Indian economy.

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