

POVERTY AND UNEMPLOYMENT

INDIAN ECONOMIC DEVELOPMENT

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Poverty and Unemployment

Poverty

Poverty is not having enough material possessions or income for a person's needs. Poverty may include social, economic, and political elements. Absolute poverty is the complete lack of the means necessary to meet basic personal needs, such as food, clothing, and shelter.

People living in poverty are often socially excluded and marginalized. Their right to effectively participate in public affairs is frequently ignored, and thus elimination of poverty is much more than a humanitarian issue, as it is more of a human rights issue. Thus, eradication of poverty and hunger is the basis of all development processes

Causes of Poverty

- **Colonial Past** - The plunder of wealth by colonial powers had left many nations including India impoverished at the time of Independence and is a cause of poverty of many nations.
- **Population Explosion** - It creates greater need for basic amenities like food, housing, education, healthcare. If state is not able to provide these necessities then it leads to poverty.
- **Limited Resources** - If there are not sufficient resources for everyone then certain section of people gets deprived of basic necessities. Also limited resources constrain the ability of government to carry out welfare programmes.
- **Corruption and Weak Institutions** - Further aggravate poverty as many social welfare programmes are not properly implemented and there siphoning of resources which were meant for poor.
- **Lack of education** - It is one of the root causes of poverty. Without education people are deprived of opportunities to get out of poverty.
- **Social Injustice** - gender discrimination, caste-based discrimination, racism, or other forms of social injustice are major causes of poverty. People who are victims of social injustice struggle with getting a good education, the right job opportunities, and access to resources that can lift them out of poverty.
- **Political Structure** - Poor are not able to get their demands heard or participate in the political system in true manner. Political clientelism further aggravates poverty.
- **Lack of Economic Freedom** - It is the ability of people of a society to take economic actions. Generally, countries with higher economic freedom have higher gross domestic product per capita and its growth rates, as well as

better health care, education quality, environment protection, income equality, and happiness results.

Understanding Poverty - Amartya Sen's Capability Approach

Why are People Poor?

People are poor because they lack choices both economic and social.

Why do they lack Choices?

They lack choices because they do not have basic freedoms and capabilities.

What are basic Freedoms and capabilities?

The freedoms through which people can empower themselves, the capabilities through which poor can take their decisions. The broad freedoms that poor lacks are: Freedom of Choice; Freedom of Justice etc.

Why do the poor lack Freedoms and Capabilities?

They lack it because of the following reasons:

- The government is not willing to provide them.
- The Institutions of empowerment are weak.
- Ours is an Entitlement based system, in which the political parties and the government prefer to take short-term measures of the distribution of freebies to attract voters.
- The Political system does not believe in Empowering people through long-term measures of Education, awareness, Justice, Health and Productivity.
- Huge presence of Inequality.
- Lack of understanding of the nature of poverty

What are the solutions?

- Empowerment of people through social development and education.
- Providing to the poor all sorts of Choices, from which he can choose the best. In short making the poor of the country capable.

Poverty Head Count Ratio versus Poverty Gap Ratio

Poverty Head Count Ratio:

- The Poverty Head Count ratio measures the proportion of population whose per capita income/ consumption expenditure is below the official Poverty line or in simple terms is measures the total number of people living below the poverty line.
- The number of people living below poverty line has decreased from 74.5 Million in the year 1993-94 to 52.8 Million in the year 2011-12.

- Head Count Ratio is a simpler measure. It is widely used and represents the cut-off point below which people are considered as poor.
- Head-Count ratio does not reflect the severity of poverty

Poverty Gap Ratio:

- The Poverty Gap Ratio is the gap by which mean consumption of the poor below poverty line falls short of the poverty line.
- It indicates the depth of poverty; the more the PGR, the worse is the condition of the poor. While the number of poor people indicates spread of poverty, PGR indicates the depth.
- During 2004-05 to 2011-12, PGR also reduced in both rural and urban areas. While the rural PGR declined from 9.64 in 2004-05 to 5.05 in 2011-12 in the urban areas, it declined from 6.08 to 2.70 during the same period. A nearly 50% decline in PGR both in rural and urban areas during 2004-05 to 2011-12, reflects that the conditions of poor have improved both in urban and rural areas.
- The poverty gap index can be interpreted as the average percentage shortfall in income for the population, from the poverty line.
- A higher poverty gap index means that poverty is more severe.

Absolute versus Relative Poverty:

Absolute Poverty:

- Absolute poverty is when we consider every poor person as equal. The general definition of poverty which is valid at all times and for all economies is called absolute poverty.
- Absolute poverty approach considers a poor in India as equal to a poor in the USA. • The simplest definition of being poor is 'being unable to subsistence' that is, being unable to eat, drink, have shelter and clothing.
- A common monetary measure of absolute poverty is 'receiving less than \$1 a day...'. (In 2008, the World Bank revised this figure to \$1.25 a day, and then again to \$1.90 a day in 2015.)

Relative Poverty:

- The difficulties involved in the application of the concept of "absolute poverty", made some researchers abandon the concept altogether. In place of absolute standards, they have developed the idea of relative standards that is, standards which are relative to particular time and place. In this way, the idea of absolute poverty has been replaced by the idea of relative poverty.
- In a rapidly changing world, definitions of poverty based on relative standards will be constantly changing. Hence, Peter Townsend has suggested that any

definition of poverty must be “related to the needs and demands of a changing society.

- It can be argued that poverty is best understood in a relative way – what is poor in New York is not the same as what is poor in Mumbai (where over 50% of the population live in slums).

Poverty Lines in India:

- The poverty line defines a threshold income. Households earning below this threshold are considered poor. Different countries have different methods of defining the threshold income depending on local socio-economic needs.
- Poverty is measured based on consumer expenditure surveys of the National Sample Survey Organisation. A poor household is defined as one with an expenditure level below a specific poverty line.
- The erstwhile Planning Commission was the nodal agency in the Government of India for estimation of poverty. It estimates the incidence of poverty at the national and state level separately in rural and urban areas.
- The incidence of poverty is measured by the poverty ratio, which is the ratio of number of poor to the total population expressed as a percentage. It is also known as headcount ratio.

Time-Line of Poverty Estimation in India

The first Poverty line was created in India by the Erstwhile Planning Commission in the mid-1970s. It was based on a minimum daily requirement of 2400 and 2100 calories for an adult in Rural and Urban area respectively.

YK Alagh Committee (1979):

- In 1979, a task force constituted by the Planning Commission for the purpose of poverty estimation, chaired by YK Alagh, constructed a poverty line for rural and urban areas on the basis of nutritional requirements.
- The nutritional requirements and related consumption expenditure based on 1973-74 price levels recommended by the task force. Poverty estimates for subsequent years were to be calculated by adjusting the price level for inflation.

Lakdawala Committee(1993):

- The criteria suggested by the committee was Calorie intake based on consumption expenditure.
- The committee recommended for state-specific poverty lines.
- As per Lakdawala committee the percentage of population living below poverty line in the year 2004-05 was:

- Rural: 28.3%
- Urban: 25.7%
- All India: 27.5%

Tendulkar Committee (2004-05):

- The committee estimated poverty by using basic requirement of the poor such as housing, clothing, shelter, education, sanitation, travel expense and health etc., to make poverty estimation realistic.
- The committee suggested to do away with the calorie-based criteria.
- The committee also suggested to have a uniform poverty line across rural and urban India.
- The Tendulkar committee stipulated a benchmark daily per capita expenditure of RS 27 and RS 33 in rural and urban areas, respectively, and arrived at a cut-off of about 22% of the population below poverty line.

As per Tendulkar report, the percentage of people living below poverty line in the year 2004-05 were as follows:

- Rural:41.8
- Urban: 25.7
- Total 37.2

In the year 2011-12,

- Rural:25.7
- Urban: 13.7
- Total: 21.9

Rangarajan Committee (2012):

- The Rangarajan Committee goes back to the idea of Lakdawala committee method of calculating Rural and Urban Poverty Separately.
- The Rangarajan group took the view that the consumption basket should contain a food component that satisfied certain minimum nutrition requirements, as well as consumption expenditure on essential non-food item groups (education, clothing, conveyance and house rent) besides a residual set of behaviourally determined nonfood expenditure.
- C Rangarajan expert group report, recommended a monthly per capita consumption expenditure of RS 972 in rural areas and RS 1,407 in urban areas as the poverty line at the all-India level.
- Assuming five members for a family, this will imply a monthly per household expenditure of RS 4,860 in rural areas and RS 7,035 in urban areas.

- The Rangarajan committee estimated a daily per capita expenditure of RS 32 and RS 47, in rural and urban areas respectively as the poverty line, and worked out poverty line at close to 29.5%.
- The Rangarajan expert group estimates that 30.9 percent of the rural population and
- 26.4 percent of the urban population were below the poverty line in 2011-12.
- The all-India ratio was 29.5 percent

Poverty Eradication Schemes:

Mahatma Gandhi Rural Guarantee Employment Act (MGNREGA)

- The Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) with its legal framework and rights-based approach was notified on September 5, 2005, and came into force with effect from 2nd February 2006.
- It aims at enhancing livelihood security by providing at least one hundred days of guaranteed wage employment in a financial year to every rural household whose adult members volunteer to do unskilled manual work.
- The Act covered 200 districts in its first phase and was extended to all the rural districts of the country in phases.
- MGNREGA is the first ever law, internationally, that guarantees wage employment at an unprecedented scale.
- The primary objective of the Act is meeting demand for wage employment in rural areas. The works permitted under the Act address causes of chronic poverty like drought, deforestation and soil erosion so that the employment generation is sustainable.
- The women workforce participation under the Scheme has surpassed the statutory minimum requirement of 33 percent, since inception, every year women participation has been around 48%.

The major goals of MGNREGA are to:

- Enhance livelihood security of the rural poor by generating wage employment opportunities in works that develop the infrastructure base of the area concerned.
- Rejuvenate the natural resource base of the area concerned.
- Create a productive rural asset base.
- Stimulate the local economy by providing a safety net to rural poor.
- Ensure empowerment to women.
- Strengthen grass-roots democratic institutions.

National Rural Livelihood Mission

- The NRLM is one of the important programs of the government of India, in terms of allocation and coverage, and it seeks to reach out to 8–10 crore rural poor households and organize them into SHGs and federations at the village and at higher levels by 2021-22.
- While doing so, NRLM ensures adequate coverage of poor and vulnerable sections of the society identified through Participatory processes and approved by Gram Sabha.
- A strong convergence with Panchayati Raj Institutions (P.R.I) is an important feature of the programme.
- During the year 2013-14, Aajeevika-NRLM has focused on supporting the State Missions in transiting to NRLM by fulfilling all the requirements, setting up implementation architecture, strengthening them by providing comprehensive induction training and capacity building support.
- As of March 2014, 27 States and the Union Territory of Puducherry have transited to NRLM.
- The Resource blocks initiated during the year 2012-13 have shown impressive results in terms of quality of community institutions and generation of social capital.
- NRLM has focused on creating special strategies and initiating pilots to reach out to the most marginalized and vulnerable communities – Persons with Disabilities (PwDs), the elderly, Particularly Vulnerable Tribal Groups (PVTGs), bonded labour, manual scavengers, victims of human trafficking, etc.
- During the year emphasis was also placed on strengthening the institutional systems in terms of adopting Human Resource Manual, Financial Management manual and roll out of interest subvention programme.
- Around 1.58 lakh youths have set up their own enterprises with the help of Aajeevika.
- 24.5 lakh Mahila Kisans have also been provided support.

Indira Awaas Yojana

- As part of a larger strategy of the Ministry's poverty eradication effort, Indira Awaas Yojana (IAY), a flagship scheme of the Ministry of Rural Development, has since inception been providing assistance to the BPL families who are either houseless or having inadequate housing facilities, for constructing a safe and durable shelter.
- The Government has been implementing IAY as part of the enabling approach to 'shelter for all', taking cognizance of the fact that rural housing is one of the major anti-poverty measures for the marginalized.

- The house is recognized not merely as a shelter and a dwelling place but also as an asset which supports the livelihood, symbolizes social position and is also a cultural expression.
- A good home would be in harmony with the natural environment protecting the household from extreme weather conditions, and it would have the required connectivity for mobility and facilities for economic activities.
- In the year 2013-14, 13.73 lakh houses have been constructed.

National Food Security Mission

- The Government of India in 2007 adopted a resolution to launch a Food Security Mission comprising rice, wheat and pulses to increase the production of rice by 10 million tons, wheat by 8 million tons and pulses by 2 million tons by the end of the Eleventh Plan (2011-12).
- Accordingly, a Centrally Sponsored Scheme, 'National Food Security Mission' (NFSM), was launched in October 2007.
- The Mission is being continued during 12th Five Year Plan with new targets of additional production of food grains of 25 million tons of food grains comprising of 10 million tons rice, 8 million tons of wheat, 4 million tons of pulses and 3 million tons of coarse cereals by the end of 12th Five Year Plan.
- The National Food Security Mission (NFSM) during the 12th Five Year Plan is having five components
 - NFSM- Rice;
 - NFSM-Wheat;
 - NFSM-Pulses,
 - NFSM-Coarse cereals and
 - NFSM Commercial Crops.

Atal Pension Yojana

- Under the Atal Pension Yojana Scheme (APY), the subscribers, under the age of 40, would receive the fixed monthly pension of Rs. 1000 to Rs. 5000 at the age of 60 years, depending on their contributions.
- To make the pension scheme more attractive, government would co-contribute 50% of a subscriber's contribution or Rs. 1,000 per annum, whichever is lower to each eligible subscriber account for a period of 5 years from 2015-16 to 2019-20.
- The benefit of government's co-contribution can be availed by those who subscribe to the scheme before December 31, 2015.

Pradhan Mantri Jeevan Jyoti Bima Yojana

- Pradhan Mantri Jeevan Jyoti Bima Yojana is low cost life insurance policy provided by government of India.
- Maximum sum offered under this scheme is Rs. 2 Lakh Premium payable for this insurance scheme is Rs. 330 per year or less than 1 rupee per day.
- It is available to people in the age group of 18 to 50 and having a bank account. People who join the scheme before completing 50 years can, however, continue to have the risk of life cover up to the age of 55 years subject to payment of premium.

Pradhan Mantri Suraksha Bima Yojna

- Pradhan Mantri Suraksha Bima Yojana is available to people between 18 and 70 years of age with bank accounts.
- It has an annual premium of Rs. 12 (18¢ US) excluding service tax, which is about 14% of the premium.
- The amount will be automatically debited from the account. In case of accidental death or full disability, the payment to the nominee will be Rs.2 lakh (US\$3,000) and in case of partial Permanent disability Rs.1 lakh (US\$1,500).
- Full disability has been defined as loss of use in both eyes, hands or feet. Partial Permanent disability has been defined as loss of use in one eye, hand or foot.
- This scheme will be linked to the bank accounts opened under the Pradhan Mantri Jan Dhan Yojana scheme. Most of these account had zero balance initially.
- The government aims to reduce the number of such zero balance accounts by using this and related schemes.

Unemployment in India

- Unemployment is a phenomenon that occurs when a person who is capable of working and is actively searching for the work is unable to find work.
- People who are either unfit for work due to physical reason or do not want to work are excluded from the category of unemployed.
- The most frequent measure of unemployment is unemployment rate. The unemployment rate is defined as a number of unemployed people divided by the number of people in the labour force.

- Labour Force: Persons who are either working (or employed) or seeking or available for work (or unemployed) during the reference period together constitute the labour force.

Measure of Unemployment in India:

Usual Status Approach:

- Usual Status approach records only those persons as unemployed who had no gainful work for a major time during the 365 days preceding the date of survey and are seeking or are available for work.
- The status of activity on which a person has spent the relatively long time of the preceding 365 days prior to the date of survey is considered to be the usual principal activity status of the person.
- The Usual Status captures long-term unemployment in the economy.

Weekly Status Approach:

- The weekly status approach records only those persons as unemployed who had no gainful work for a major time during the seven days preceding the date of survey.
- The weekly status approach captures both the long-term open chronic unemployment and the seasonal unemployment.
- A person is considered to be employed if he or she pursues any one or more of the gainful activities for at least one-hour on any day of the reference week. On the other hand, if a person does not pursue any gainful activity, but has been seeking or available for work, the person is considered as unemployed.

Daily Status Approach:

- In the Daily status approach, current activity status of the person with regard to whether employed or unemployed or outside labour force is recorded for each day in the reference week. The measure adopts half day as a unit of measurement for estimating employment or unemployment.
- The approach is most inclusive than the other two. Since it also captures the days of unemployment of those who are recorded as employed on the weekly status approach.
- A person who works for 4 hours or more but up to 8 hours on a day is recorded as employed for the full day.
- A person who works for 1 hour or more but less than 4 hours is recorded as employed for the half day.

- Accordingly, a person having no gainful work even for 1 hour in a day is described as unemployed for a full day.

Types of Unemployment

Frictional Unemployment:

- The minimum amount of unemployment that prevails in an economy due to workers quitting their previous jobs and are searching for the new jobs is called Frictional Unemployment
- The major reasons for frictional unemployment are lack of information about the availability of jobs and lack of mobility on the part of workers (it means workers are not willing to travel to a distant place or a new state for employment).
- Frictionally unemployed person remains unemployed for a very short period of time.
- This type of unemployment is of voluntary nature.

Voluntary Unemployment:

- Voluntary unemployment refers to a situation where workers are either not seeking for work or are in transition from one job to another (quitting one job in search of another better job).
- Voluntary unemployment remains in an economy during all the time. As there will always be some workers, who quit their previous jobs in search of new ones.

Involuntary Unemployment:

- Involuntary unemployment refers to a situation where workers are seeking work and are willing to work but are unable to get work.
- Involuntary unemployment happens in an economy during the time of depression and fall in aggregate demand for goods and services.

Seasonal Unemployment:

- Seasonal unemployment occurs during certain seasons of the year. In some industries and occupations like agriculture, holiday resorts etc., production activities take place only in some seasons.
- Therefore, they offer employment for only a certain period of time in a year.
- People engaged in such type of activities may remain unemployed during the offseason.

Cyclical Unemployment:

- Cyclical unemployment is due to deficiency or fall in effective demand from consumers which leads to fall in production and low demand for labour.
- Cyclical unemployment is a type of unemployment which is related to the cyclical trends of booms and recessions called as the business cycle.
- If an economy is doing good, cyclical unemployment will be at its lowest and will be the highest if the economy faces recession.
- The major reason for this type of unemployment is lack of demand in the economy and slowdown of economic activity.
- When the demand for goods and services is low, then the firms stop the production due to rise in the unsold stock. As a result of stopping production, the firms lay off workers and unemployment rises.
- This type of unemployment is for a long period of time and worker remains unemployed during the entire phase of slow down or recession.
- This type of unemployment is of involuntary nature.

Structural Unemployment:

- Structural unemployment refers to a situation which arises due to change in the structure of the economy. Example: An economy transforms itself from a Labour intensive economy to a Capital-intensive economy.
- Structural unemployment usually occurs due to the mismatch of skills. Example, due to advance technological progress, the production of cars is done through robotic machines rather than traditional Machines. As a result, those workers who do not know how to operate the new and advanced machines will be removed.
- The unemployment happened because the current workers do not have the required skills as wanted by their employers.
- Technological Advancement, Robotics, Artificial Intelligence, Mechanisation and Automation are the main causes of Structural unemployment.

Disguised Unemployment:

- Disguised unemployment is a situation especially prevalent in poor and developing countries.
- Disguised unemployment is when too many people are employed than what is required to produce efficiently. This kind of employment is not at all productive.
- It is not productive in a sense that production does not suffer even if some of the employed people are withdrawn.

- The key point to remember is that the marginal productivity of labourers under disguised unemployment is zero. The labourers are employed physically, but not economically.

Under Employment:

- Underemployment is the most dangerous kind of unemployment in an economy. Underemployment is a situation under which People with a higher level of skills are employed in less productive jobs. It simply means that the Labour force of the economy is not fully utilised as per their skills and experience.
- Example: an individual with an engineering or management degree working as a clerk or accountant in a firm or a social science graduate working as a pizza delivery boy.

Unemployment in India: Causes

- Lack of capital
- Population Explosion
- Lack of physical infrastructure to support Manufacturing
- Rigid Labour Laws
- Weak Manufacturing Sector
- Adoption of Capital Intensive Production Techniques
- Less focus on labour intensive sector like textile industry, construction industry, apparel manufacturing etc.
- Overvalued exchange rate making exports weak and job loss in export sector
- Income inequalities

Consequences of Unemployment

- Increase in Crime Level
- Loss of Competitiveness in World Economy
- Social Unrest and Political Instability
- Low Standard of Living
- Increase in Poverty and Inequality
- Low Minimum Wages and Burden on Government finances due to ever increasing subsidies

Periodic Labour Force Survey (PLFS)

The PLFS was launched from 1st April 2017.

- Primary aim of the PLFS is to generate reasonably accurate indicators of labour market at a short span for every quarter for which speed of quality data collection and processing are important.
- PLFS was launched with the objective of measuring employment every three months in urban areas and once a year in both rural and urban areas.
- The quarterly survey only captures data classed as current weekly status (CWS), while the annual survey measures both the usual status and CWS.
- The NSSO was historically conducting Employment and Unemployment Surveys as part of its National Sample Surveys.

Who are the Unemployed?

Labour force means people working or looking for jobs in the age group of 15-29 years.

CWS Method:

A person who is unable to get work for even an hour in the last seven days despite seeking employment is considered unemployed.

Usual Status Method:

Under this, the employment activity of a person is determined on the basis of a reference period of 365 days preceding the date of the survey.

Trends

- Labour force participation has been declining and touched 36.9% in 2017-18 as more among them, especially females, enrolled for higher studies.
- The youth accounted for 28.2% of urban males and 27.8% of urban females.
- During 2017-18, among people aged 15-29 years, the share of the educated was 65.8% among urban males. It was 65.4% among urban females.
- A higher percentage of males compared to females had received either formal or nonformal vocational training.

Reality of jobless growth

- The rising unemployment rate despite falling labour force participation for the youth is more worrying.
- This is likely to raise questions about whether India is suffering from jobless growth.
- According to Census 2011, India has 333 million youth—a number that is likely to touch 367 million in 2021 and 370 million by 2031.

- With this huge rise in youth unemployment, it is hard to reconcile this information with the EPFO data that people keep talking about, because a majority of the new entrants to EPFO would be the younger people.
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