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BA Economics Honours | Semester 1 | Calicut University

# Development Issues in Indian Economy

Course Code: ECO1MN104 • Module 4

# Module IV: Unemployment

Employment is the primary vehicle through which citizens participate in economic production, earn livelihoods, and realize human dignity. In an emerging economy with an expanding working-age population like India, generating productive, remunerative, and formal employment represents the preeminent socio-economic policy imperative.

## Unit 18: Types and Structure of Unemployment

Unemployment occurs when individuals who are willing and able to work at prevailing market wages fail to secure gainful employment. In the Indian economy, unemployment manifests across diverse structural forms:

- **Disguised (Hidden) Unemployment:** A structural condition where more workers are engaged in an economic activity (predominantly subsistence agriculture) than are technologically necessary. The **marginal physical productivity of labor is zero or near zero** ($MP_L approx 0$). If several workers are withdrawn from the family farm plot, total agricultural output remains completely unchanged. Surplus farm labor represents disguised unemployment trapped by lack of alternative industrial jobs.
- **Structural Unemployment:** Arises from a fundamental structural mismatch between the skills possessed by job seekers and the technological qualifications demanded by modern employers (e.g., millions of arts and engineering graduates lacking industry-relevant software and analytical skills).
- **Educated Unemployment:** Widespread unemployment among youth holding secondary and tertiary degrees who refuse low-skilled manual or informal jobs, queuing instead for scarce formal white-collar and government positions.
- **Frictional Unemployment:** Temporary unemployment experienced by workers transitioning between jobs or newly entering the labor market.
- **Cyclical (Keynesian) Unemployment:** Caused by deficiency of aggregate effective demand during general economic recessions.
- **Seasonal Unemployment:** Prevalent in agriculture and agro-processing industries (sugar mills) during non-sowing and non-harvest seasons.

## Unit 19: Conceptual Framework of Key Employment and Unemployment Indicators

India's official statistical agencies—historically the National Sample Survey Office (NSSO) and currently the Ministry of Statistics and Programme Implementation (MoSPI) through the **Periodic Labour Force Survey (PLFS)**—utilize a rigorous conceptual framework to measure employment:

- **Labour Force Participation Rate (LFPR):** The percentage of the working-age population (15 years and older) that is either actively employed or seeking work ($LFPR = \frac{\text{Employed} + \text{Unemployed}}{\text{Total Working Age Population}} \times 100$). A critical structural feature of India is its historically low female LFPR (~30%–35%), though recent PLFS surveys show an upward trajectory.
- **Worker Population Ratio (WPR):** The percentage of the total population that is actively employed ( $WPR = \frac{\text{Employed}}{\text{Total Population}} \times 100$).
- **Unemployment Rate (UR):** The percentage of persons in the active labour force who are unemployed ($UR = \frac{\text{Unemployed}}{\text{Labour Force}} \times 100$).

### Measurement Activity Statuses

1. **Usual Principal and Subsidiary Status (UPSS):** Measures chronic or long-term employment status over a 365-day reference period. An individual is counted as employed under Usual Principal Status (UPS) if they spent a major part of the preceding year (183 days or more) in economic activity. Under UPSS, an individual is counted as employed if they worked for even 30 days during the year in a subsidiary capacity.
2. **Current Weekly Status (CWS):** Measures employment over a 7-day reference period. An individual is considered employed if they performed economic work for at least one hour on any day during the reference week.
3. **Current Daily Status (CDS):** Measures employment on each day of the reference week in half-day units (4 hours). CDS captures day-to-day employment fluctuations, making it the most accurate measure of open and intermittent unemployment in rural areas.

## Unit 20: Nature and Estimates of Unemployment in India

Key findings from recent Periodic Labour Force Surveys (PLFS) illuminate the contemporary employment landscape:

- **Headline Unemployment Rate:** India's overall UPSS unemployment rate has stabilized around 3.1%–3.2% in recent surveys. However, headline figures conceal deep structural distress: youth unemployment (ages 15–29) remains stubbornly high (~10%–12%), and graduate unemployment exceeds 13%.
- **Informalization and Self-Employment:** Over 57% of Indian workers are categorized as self-employed (including own-account workers and unpaid family helpers), ~21% as casual wage laborers, and only ~22% as regular wage/salaried employees. Furthermore, over 88% of all jobs are in the unorganized informal sector with zero statutory social security benefits.
- **The Emerging Gig and Platform Economy:** Millions of urban youths are absorbed into gig platforms (delivery, ride-hailing, e-commerce logistics). While providing immediate income, gig work lacks health insurance, pension entitlements, and minimum wage protections, leading to demands for new statutory gig worker welfare boards.

| Measurement Status | Reference Horizon | Criterion for Employment | What It Accurately Captures |
|---|---|---|---|
| Usual Status (UPSS) | 365 days (one full year). | Worked for $\geq 30$ days during the reference year. | Long-term, chronic, open unemployment. |
| Current Weekly Status (CWS) | 7 days (preceding week). | Worked for at least 1 hour on any day of the week. | Short-term, seasonal, and cyclical fluctuations. |
| Current Daily Status (CDS) | Each day of the 7-day week. | Units of 4 hours per day. | Intermittent, day-to-day underemployment. |

## Advanced Theoretical Formulations and Empirical Frameworks (Analytical Division 1)

The theoretical structures established in this module carry far-reaching implications for empirical economic research, institutional policymaking, and dynamic market equilibrium. In contemporary economic analysis, economists employ sophisticated econometric models, institutional diagnostic frameworks, and comparative

historical evaluations to rigorously assess the validity of core assumptions and their real-world outcomes across developing and advanced economies.

## Empirical Methodology, Identification Strategies, and Econometric Estimation

Empirical validation of economic models necessitates the rigorous treatment of endogeneity, omitted variable bias, and measurement error. Whether analyzing consumer behavior, firm cost structures, fiscal multipliers, or monetary transmission mechanisms, applied researchers utilize instrumental variables (IV), difference-in-differences (DiD), synthetic control methods, and regression discontinuity designs (RDD) to isolate causal relationships from mere statistical correlation.

Consider the structural estimation of policy impacts across decentralized economic agents. When evaluating macroeconomic interventions or microeconomic regulatory changes, parameters estimated from observational datasets must account for expectations formation and structural parameter stability in accordance with the Lucas Critique. Consequently, contemporary applied economics bridges micro-foundations with aggregate macroeconomic phenomena through dynamic stochastic general equilibrium (DSGE) modeling and micro-econometric panel estimations.

## Comparative Institutional Analysis, Market Failures, and Policy Governance

Economic outcomes are fundamentally mediated by institutional architectures, legal property rights regimes, and regulatory governance. In emerging market economies such as India, market imperfections—including asymmetric information, transaction costs, infrastructural bottlenecks, and credit constraints—often necessitate nuanced policy interventions that differ substantially from textbook laissez-faire predictions.

| Analytical Dimension | Orthodox / Classical Perspective | Heterodox / Institutional Framework | Empirical Policy Manifestations in India |
|---|---|---|---|
| Market Efficiency | Markets clear instantaneously; price mechanism allocates resources optimally without systemic friction. | Markets are prone to structural failures, information asymmetry, and coordination coordination failures. | Targeted regulatory oversight, public investment in infrastructure, and social safety nets. |
| Behavioral Motivation | Hyper-rational agents maximizing expected utility with complete cognitive computational capacity. | Bounded rationality, behavioral heuristics, loss aversion, and institutional anchoring effects. | Choice architecture, behavioral nudges (NITI Aayog initiatives), and consumer financial protection mandates. |
| State Intervention | State role restricted to core public goods, contract enforcement, and national defense (minimalist state). | State acts as developmental catalyst, risk-absorber of last resort, and promoter of equitable distribution. | Strategic industrial policy (PLI schemes), counter-cyclical fiscal intervention, and universal public services. |
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| Technological Progress | Exogenous technological shocks arriving randomly | Endogenous technological innovation driven by R&D, human capital, and | National Innovation Foundation, Startup India, and public digital |

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|---|---|---|---|
| | (Solow neoclassical growth model). | intellectual property institutions. | infrastructure (India Stack / UPI). |

### Comprehensive Empirical Analysis: The Kerala Model and Sub-National Development

In the context of the Indian economy and sub-national development paradigms, the Kerala Model of Development provides a seminal empirical case study illustrating the complex trade-offs between social development and economic growth. Characterized by high physical quality of life indicators—including near-universal adult literacy, high life expectancy, and low infant mortality rates comparable to advanced Western economies—achieved despite historically modest per capita state domestic product, Kerala demonstrates the transformative power of public social expenditure, agrarian land reforms, and decentralized local governance (Panchayati Raj institutions).

However, contemporary economic analysis also highlights structural challenges confronting this development paradigm: high educated unemployment, fiscal constraints stemming from escalating public debt servicing and pension obligations, and heavy reliance on external remittance inflows from migrant workers in the Persian Gulf. Sustaining this high-welfare equilibrium necessitates transitioning toward a knowledge-driven economy, incentivizing high-tech manufacturing, and mobilizing sustainable sub-national fiscal resources.

### Policy Synthesis and Analytical Evaluation

Policy formulation in dynamic economic environments must therefore synthesize foundational deductive reasoning with robust inductive empirical inquiry. Economists must continuously evaluate the balance between market incentives and regulatory governance, ensuring that institutional frameworks promote both productive efficiency and distributive social justice.

## Advanced Theoretical Formulations and Empirical Frameworks (Analytical Division 2)

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