Understanding India's Job Crisis

What is the issue?

- India is certainly witnessing a massive jobs crisis.
- But there is constant denial of this from the government side, with an argument that it is more a problem of wages than of jobs.

Is the argument on wages justified?

- According to this argument, every Indian youth who wants a job can get one, but not the wages she wants.
- But in reality, what determines the wages for an employee is the demand for such skills versus the supply of such skills.
- In economic parlance, wage, or the price of labour, is an internal variable and not an external one.
- So wages are not certainly determined by some external factor that is removed from labour market conditions.
- It is, instead, entirely a function of the labour market.
- **Example**: the PM's favourite example of frying pakodas
- Wages for a person frying pakodas is determined by the demand for pakodas and the supply of pakoda fryers.
- If the wages for pakoda frying are very low, it means that there are more people willing to fry pakodas for a job than there is demand for pakodas.
- In other words, the economy is not creating enough opportunities for the large number of unemployed people other than to fry pakodas at minimum wages.
- So in effect, if demand is higher than supply, wages automatically rise; if not, they remain stagnant.
- So to understand the current unemployment issue in India as a wages problem is not valid.

What is a possible explanation?

- The work of Arthur Lewis, the Nobel Prize-winning economist from the West Indies, clarifies to an extent the issue with India's job crisis.
- He proposes that in economies such as India and China, which have an “infinite supply of labour”, there tends to be a two-sector economy.
- These are the capitalist sector (urban manufacturing) and the subsistence

sector (rural agricultural).

- He found that the living standards of all citizens in such two-sector economies are determined by the wages of those in the subsistence sector.
- Initially, the majority of labour is employed upon the land which is a fixed resource.
- But over time, due to disguised unemployment, diminishing marginal returns eventually set-in in this sector.
- Eventually, the higher urban wages attracts labour force from the subsistence sector, to engage in manufacturing activity.
- But a point will be reached when wages will ultimately rise only when the demand for labour exceeds the supply; otherwise wages remain low.
- This is the current jobs situation in India as it is not creating as many jobs as is needed i.e. demand is lower than the supply of labour.
- As some argue the job crisis is also not the result of the largely informal nature of India's economy that leads to low productivity and low wages.
- Evidently, no large market economy in history has embarked on an explicit economic policy for forced formalisation, for better wages.
- As, formalisation is an outcome of economic development, and not a cause for it.

What is the need now?

- India is not unique in experiencing rising joblessness and, consequently, income inequality.
- Many developed and developing nations are also witnessing this problem.
- The government should thus stop denying and first acknowledge the job crisis existing in the country.
- It should then move forward with finding ways and solutions to tackle the crisis, and finally, a coordinated implementation of ideas.

Source: The Hindu

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