

Abstract for “Unemployment Burden and its Distribution: Theory and Evidence from India”

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“Inclusion” and “Inclusive growth” have emerged as important policy objectives in many developing countries. In India, which has been experiencing impressive growth, this is in part due to the recognition that growth has not resulted in a commensurate reduction in poverty (Kotwal et al. (2011), Motiram and Naraparaju (2013), and the references therein). One reason for insufficient poverty reduction that has been highlighted by both academics (Kotwal et al. 2011) and policy makers (Planning Commission 2011, Economic Survey 2013) is the inadequate generation of decent jobs. In fact the latest Economic Survey (2013) remarks that “a good job is the best form of inclusion.”

Employment generation has been seen as imperative for tackling poverty and for effectively leveraging the “demographic dividend” – an issue that has attracted global attention (Economist 2013 a, b). Consequently, it is important that the problems of unemployment and underemployment are adequately understood. Although there is considerable literature on unemployment in India, there is hardly any rigorous study on unemployment spells, chronic unemployment, and inequality among the unemployed. This paper aims to fill this gap.

The difference between short duration/short-term unemployment and long duration/chronic unemployment is not just an academic matter, but important for policy purposes too. The policies that are required to tackle short-term unemployment are different from those that are required to tackle chronic unemployment, which is much more serious. The characteristics and differences among the chronically unemployed themselves offer different policy prescriptions. For instance, a situation where most of the chronically unemployed are looking for their first job would be different from a scenario where most of them were previously employed, but have lost their jobs. The former would require policy makers to avoid the prospect of disgruntled youth turning into a “demographic curse,” while the latter would mean that they should focus on labor market rigidities or other factors that affect the prospects for re-employment. As recent literature has highlighted (e.g. Christiaensen and Shorrocks 2012, and the contributions therein), this is similar to the issue of short-term vs. chronic poverty. In the Indian context, to the best of our knowledge, there is no systematic study that provides a profile of those who are chronically unemployed, that would shed light on appropriate policies that one should prioritize. Moreover, while there are several studies that have measured unemployment and shown how unemployment measures have changed over time, to the best of our knowledge, there is no study that has taken unemployment spells seriously and incorporated differences among the unemployed. There is, however, an older study, Paul (1991), which uses National Sample Survey data from 1977-78 and 1983 to examine durations of unemployment within the reference week and measures that incorporate these.

In light of the above, we use data from the Indian National Sample Surveys (NSS) on employment and unemployment during 1993-2012 to analyze unemployment spells and the experience of those unemployed for long durations. We focus on this period not only because data on unemployment spells is available, but also because India underwent major economic reforms and experienced rapid

growth during this period. We first document unemployment spell patterns, and analyze differences between those unemployed for shorter and longer durations, separately for rural and urban areas, and for men and women. There is a sparse literature that incorporates inequality among the unemployed and assesses the welfare costs of unemployment by doing so. We draw upon this literature to propose a new measure (based also upon the literature on poverty and inequality measurement) that can be considered to be a “distribution sensitive” alternative to the official measure of unemployment, and show how our measure and other measures have changed over the period of interest.

Our main findings can be summarized as follows. The data documents activities performed as well as unemployment experienced during a “reference week.” We find that there is considerable variation in unemployment durations, ranging from half-a-day to the whole week. Even among those unemployed for the whole week, the distribution of their current spell of unemployment varies considerably - from exactly one-week to more than a year. This is true for both males and females, and in rural as well as urban areas; moreover, this pattern has been retained over the past two decades. We also find that the better educated and relatively well-off individuals form a substantial proportion of those who are unemployed for the whole week, suggesting that those experiencing chronic unemployment are not necessarily poor. This in turn can be explained by two factors: first, the poor cannot afford to be unemployed for long periods; second, those who are better educated are unable to find enough jobs that are suitable for their qualifications. The first factor also suggests that there may be considerable underemployment – the poor (and others who need to work to survive) are taking up whatever jobs that they are able to obtain, and not necessarily jobs that are best suited for them.

Our analysis of unemployment measures suggests that unemployment has increased since 1993-94 in rural areas for females, it initially increased and then came back to the 1993-94 level for rural males, and decreased since 1993-94 for urban males and females (although this has to be viewed in light of the finding above on underemployment). Most of the long-term unemployed have no prior work experience reflecting that they are facing considerable difficulties in getting their first job. We find that this has hardly changed over the period of our study. Unemployment among women is much higher than the same for men, particularly in urban areas, and this fact has remained stable for the past two decades. On the theoretical front, we show that considerable insight is obtained by considering measures that incorporate inequality among unemployed. Given that this literature is sparse and has been dormant since the 1990s (Borooah (2012) is an exception), we hope that our contribution will give some impetus to it.