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19 CHAPTER PLANNING IN INDIA

Planning refers to the process of setting goals, formulating strategies, and making decisions to achieve desired outcomes. In the context of economics, planning plays a crucial role in the overall development of a country's economy. It involves the systematic organization and allocation of resources to achieve economic objectives.

Significance of Planning in Economic Development

1. **Resource Allocation:** It ensures that resources are utilized in the most productive and equitable manner, leading to overall economic development.
2. **Economic Stability:** It enables governments to implement policies that reduce economic volatility and ensure sustainable growth.
3. **Industrialization and Diversification:** Planning facilitates the industrialization and diversification of the economy, thereby increasing resilience and long-term growth prospects.
4. **Social Development:** Planning considers social objectives alongside economic goals. It focuses on improving education, healthcare, infrastructure, and social welfare to enhance the well-being and living standards of the population.

Historical Context

Pre-independence economic scenario: India was under British colonial rule, and the economy was primarily designed to serve British interests rather than promote indigenous industrial development.

The absence of comprehensive planning meant that economic policies and development efforts were not coordinated, leading to inefficiencies and disparities in growth across regions.

Early efforts towards economic planning in India

Dadabhai Naoroji and the Quest for Economic Justice

Dadabhai Naoroji, known as the "Grand Old Man of India," played a pivotal role in addressing economic justice during the late 19th century. His book, "Poverty and Un-British Rule in India," published in 1901, shed light on the drain of wealth and economic exploitation faced by Indians under British rule. Naoroji's work laid the foundation for recognizing the need for economic planning to alleviate poverty and uplift the nation.

M. Visvesvaraya and the Call for National Planning

M. Visvesvaraya, an accomplished engineer and statesman, advocated for planned development during his tenure as the Diwan of Mysore from 1912 to 1918. His implementation of development initiatives in Mysore showcased the effectiveness of systematic planning. In 1934, he formulated a ten year plan for economic development of the country in his book "Planned Economy for India".

Influence of Soviet Planning (1928) and Great Depression

The Soviet Union's successful planning experiment in 1928 attracted global attention. The Great Depression of the 1930s affected most countries except the USSR. Indian leaders recognized the

potential of planned development after observing the USSR's success.

Congress Resolution and Provincial Autonomy (1935-1937)

The Government of India Act 1935 introduced provincial autonomy, leading to Congress forming governments in eight provinces. The Congress Working Committee suggested an interprovincial committee to address urgent national reconstruction and social planning issues.

National Planning Committee (NPC, 1938)

Congress President Subhash Chandra Bose initiated the NPC. Jawaharlal Nehru led the committee, which studied various aspects of India's economy. NPC laid the foundation for coordinated economic planning in India.

The Bombay Plan and Industrialization (1944)

In 1944, influential industrialists including JRD Tata, GD Birla, Purshottamdas Thakurdas and others proposed the Bombay Plan as a comprehensive strategy for economic development. The plan focused on industrialization, infrastructure development, and social welfare measures. It advocated for a mixed economy, with collaboration between the private sector and state intervention.

People's Plan

People's plan was drafted by MN Roy. This plan was for ten years period and gave greatest priority to Agriculture. Nationalization of all agriculture and production was the main feature of this plan. This plan was based on Marxist socialism.

Sarvodaya Plan and the Gandhian Vision

Inspired by Mahatma Gandhi's and Vinoba Bhave's principles, J.P. Narayan championed the Sarvodaya Plan. The plan emphasized non-violence, self-reliance, and equitable distribution of wealth. Cooperative farming and self sufficiency were central to the Sarvodaya Plan's vision for economic development.

These early endeavors laid the foundation for subsequent Five-Year Plans and continue to shape India's economic policies, reflecting the nation's journey towards inclusive and sustainable development.

Brief overview of India's economic challenges post-independence

After gaining independence in 1947, India faced several immediate economic challenges.

1. At the time of independence, India was grappling with widespread poverty and low levels of economic development. The poverty rate was alarmingly high, with around 70% of the population living below the poverty line.
2. The Indian economy was predominantly agrarian, with the majority of the population engaged in agriculture. However, agricultural productivity was low due to outdated farming techniques, lack of irrigation facilities, and fragmented landholdings.
3. Infrastructure, including transportation, power, and communication networks, was underdeveloped and inadequate. Limited road and rail connectivity hindered trade and economic growth. Access to electricity was limited, with a significant portion of the population lacking reliable power supply.
4. India's industrial sector was underdeveloped, with limited capital and outdated technology. The industrial sector's contribution to GDP was relatively low, at around 8% in 1950.
5. The country relied heavily on imports for essential goods, including machinery and capital goods. Limited foreign exchange earnings from exports put pressure on the balance of payments, leading to trade deficits and a constant struggle to stabilize the currency.

Establishment of the Planning Commission

In the early years after India gained independence, the need for systematic economic planning was

recognized to drive the nation's development and address the challenges inherited from colonial rule. This led to the establishment of the Planning Commission in 1950, which played a crucial role in formulating and implementing Five-Year Plans.

The Planning Commission, under the chairmanship of the Prime Minister, was responsible for coordinating and guiding the process of economic planning at the national level. Its primary objective was to promote balanced and sustainable economic growth, equitable resource allocation, and social justice.

Five Year plans

First Five-Year Plan (1951-1956)

The First Five-Year Plan marked the beginning of India's planned economic development. Led by Prime Minister Jawaharlal Nehru, this plan aimed to lay the foundation for rapid industrialization and promote agricultural growth.

The First Plan drew inspiration from the Harrod-Domar model, which emphasized the importance of investment in driving economic growth. However, it incorporated modifications to suit India's specific needs and challenges.

Primary focuses of the First Five-Year Plan was agricultural development. Many irrigation projects were initiated during this period, including the Bhakra, Hirakud and Damodar Valley dams. The First Plan exceeded its growth target, achieving a growth rate of 3.6%, surpassing the initial target of 2.1%. Another notable outcome of the First Five-Year Plan was the establishment of Indian Institute of Technology (IIT), Kharagpur.

Second Five-Year Plan (1956 - 1961)

The Second Five-Year Plan under the leadership of Jawaharlal Nehru, aimed to further propel India's economic development. This plan was based on the P.C. Mahalanobis Model, which emphasized industrialization as a means to achieve rapid growth.

The primary focus of the Second Five-Year Plan was on industrial development. It aimed reduce dependence on imports. The plan emphasized the establishment of heavy industries, such as steel, chemicals, and machinery. Major steel plants at Bhilai, Durgapur, and Rourkela were established with the help of the Soviet Union, Britain (the U.K) and West Germany respectively.

While the plan set a target growth rate of 4.5%, it fell short and achieved a growth rate of 4.27%. It also faced criticism from experts who argued that the plan's emphasis on heavy industries came at the expense of agriculture and other crucial sectors. The shortcomings of the Second Five-Year Plan became evident in 1957 when India faced an external payment crisis.

Third Five-Year Plan (1961 - 1966)

The Third Five-Year Plan, also known as the 'Gadgil Yojna,' after D.R. Gadgil, the Deputy Chairman of the Planning Commission at that time.

The main objective of the Third Five-Year Plan was to achieve economic self-sufficiency. However, the execution of this plan faced significant challenges due to external factors. During the plan period, India was involved in two wars—the Sino-India war of 1962 and the Indo-Pakistani war of 1965. These conflicts strained the economy, shifting the focus towards the defense industry, the Indian Army, and stabilizing prices due to inflationary pressures.

Unfortunately, the Third Five-Year Plan did not meet its intended targets. The plan faced setbacks primarily due to the impact of the wars and drought conditions in certain regions. India had to resort to borrowing from the IMF. The rupee was devalued in 1966. The target growth rate was set at 5.6%, but the achieved growth rate was only 2.4%.

Plan holidays (1966- 1969)

During the period from 1966 to 1969, the Indian government declared a series of annual plans known as "Plan Holidays." These plan holidays were introduced as a response to the failure of the Third Five-Year Plan, primarily due to the Indo-Pakistani war and the Sino-India war.

The focus was placed on addressing the immediate economic challenges faced by the country. The annual plans during the plan holidays gave equal importance to both agriculture and its allied sectors, as well as the industrial sector. In an effort to bolster the country's exports, the government decided to devalue the Indian rupee. Devaluation made Indian goods more competitive in international markets by lowering their prices relative to other currencies.

The plan holidays were a departure from the conventional long-term planning approach, reflecting the need for flexibility and adaptability during a period of economic instability and geopolitical tensions.

Fourth Five-Year Plan (1969 - 1974)

The Fourth Five-Year Plan under the leadership of Prime Minister Indira Gandhi, aimed to achieve two main objectives: sustainable growth with stability and progressive self-reliance.

During this plan period, several significant developments took place. One notable action was the nationalization of 14 major Indian banks, which aimed to strengthen the banking sector and promote financial inclusivity. Additionally, the Green Revolution gained momentum during this period, helping increase agricultural productivity and address food shortages. The period also witnessed the Indo-Pakistani War of 1971 and the Bangladesh Liberation War.

Another important focus of the Fourth Five-Year Plan was the implementation of family planning programs. The government aimed to control population growth and promote reproductive health and family welfare.

However, despite these efforts, the Fourth Five-Year Plan did not achieve its targets. The plan's growth rate fell short, reaching only 3.3% instead of the intended 5.6%. The Indo-Pakistani War of 1971 and the Bangladesh Liberation War strained the economy, diverting resources and attention away from developmental goals. Additionally, other economic factors such as rising oil prices, inflation, and internal political instability also posed challenges to the plan's implementation.

Fifth Five-Year Plan (1974 - 1978)

The Fifth Five-Year Plan aimed to address various socio-economic challenges and promote inclusive growth in India.

During this plan period, one of the primary objectives was the eradication of poverty, as reflected in the slogan "Garibi Hatao" (Remove Poverty). Efforts were made to uplift marginalized sections of society through targeted policies and programs.

Employment generation and social justice were also significant priorities during the Fifth Five-Year Plan. The government launched the Twenty-point Program in 1975, which aimed to address various socio-economic issues such as unemployment, housing, education, and healthcare. The Minimum Needs Programme (MNP) was introduced to provide essential services and infrastructure in rural areas. India went through the "Emergency" period from 1975 to 1977.

Despite challenges such as the global oil crisis and economic instability, the Fifth Five-Year Plan achieved relative success. It surpassed its growth target, achieving a growth rate of 4.8% compared to the intended 4.4%. However, the Fifth Five-Year Plan was terminated prematurely in 1978 by the newly elected government led by Morarji Desai.

Rolling Plan (1978-1980)

The Rolling Plan was introduced as an interim planning approach after the termination of the Fifth Five-Year Plan, with the intention of providing flexibility and adaptability to India's economic planning

process.

Under the Rolling Plan, three types of plans were introduced. Firstly, there was the plan for the current year, which focused on the annual budget and short-term goals. Secondly, there was a plan for a fixed number of years, ranging from 3 to 5 years, which aimed to address medium-term objectives. Lastly, a perspective plan for long-term goals, spanning 10, 15, or 20 years, was also formulated.

The Rolling Plan offered certain advantages over the conventional Five-Year Plans. It allowed for the adjustment of targets and the flexibility to respond to changing economic conditions. Projects, allocations, and policies could be revised annually based on the prevailing circumstances, which was seen as a positive aspect of the plan.

However, the Rolling Plan also had its drawbacks. The frequent amendments to targets and plans could create difficulties in achieving the desired outcomes and lead to instability in the Indian economy.

Due to these concerns and the need for a more structured and comprehensive approach to planning, the Rolling Plan was rejected by the Indian National Congress in 1980. Instead, a new Sixth Five-Year Plan was introduced to provide a more cohesive and focused framework for economic development.

Sixth Five-Year Plan (1980 - 1985)

The Sixth Five-Year Plan under the leadership of Prime Minister Indira Gandhi, aimed to foster economic liberalization, eradicate poverty, and achieve technological self-reliance in India.

It recognized the importance of capital investment and infrastructure development as drivers of economic progress.

One of the key targets of the Sixth Five-Year Plan was to achieve a growth rate of 5.2%. However, the plan surpassed this target and achieved a growth rate of 5.7%.

During the Sixth Five-Year Plan, efforts were made to promote industrialization, enhance agricultural productivity, and invest in key sectors such as energy, infrastructure, and education. The National Bank for Agriculture and Rural Development (NABARD) was established for development of rural areas in 1982. The plan also focused on improving healthcare services, expanding access to education, and strengthening social welfare programs.

The Sixth Five-Year Plan marked a significant step towards economic liberalization and self-reliance. This was the end of Nehruvian socialism.

Seventh Five-Year Plan (1985 - 1990)

The Seventh Five-Year Plan under the leadership of Prime Minister Rajiv Gandhi, focused on achieving self-sufficiency in the Indian economy, generating productive employment opportunities, and upgrading technology.

The plan placed significant emphasis on accelerating food grain production to meet the growing demands of the population.

Another key objective of the Seventh Five-Year Plan was to increase employment opportunities and raise productivity. Efforts were made to promote labor-intensive industries and enhance skill development programs to meet the demand for skilled manpower.

The plan also marked a shift in the approach towards the private sector, giving it priority over the public sector for the first time. This change aimed to foster entrepreneurship, attract investments, and stimulate economic growth through private enterprise.

Despite economic challenges and social unrest during this period, the Seventh Five-Year Plan achieved remarkable success. It exceeded its growth target of 5.0% and recorded a growth rate of 6%.

Annual Plans (1990-91 & 1991-92)

Due to the volatile political situation at the center, the Eighth Five-Year Plan could not be implemented as scheduled. Instead, two annual plans were formulated to address the economic

challenges and ensure some degree of continuity in planning.

These annual plans aimed to address immediate economic concerns and mitigate the impact of the delay in implementing the Eighth Five-Year Plan.

Eighth Five-Year Plan (1992 - 1997)

The Eighth Five-Year Plan under the leadership of Prime Minister V. Narasimha Rao, aimed to prioritize the development of human resources, including employment, education, and public health.

In 1991, India faced a crisis in foreign exchange (forex) reserves, left with reserves of only about US\$1 billion. During this plan period, the government launched the New Economic Policy of India, which aimed to liberalize and reform the Indian economy. The policy introduced measures such as deregulation, privatization, and liberalized foreign investment to stimulate economic growth and attract global participation. India became a member of the World Trade Organization on 1 January 1995.

The Eighth Five-Year Plan witnessed several notable economic outcomes. Rapid economic growth was achieved, with the highest annual growth rate recorded thus far at 6.8%. The plan also saw improvements in trade and current account deficits.

One remarkable aspect of the Eighth Five-Year Plan was the decline in the share of public sector investment, which accounted for about 34% of total investment. This reflected the emphasis on encouraging private sector participation and reducing the government's role in the economy.

Ninth Five-Year Plan (1997 - 2002)

The Ninth Five-Year Plan under the leadership of Prime Minister Atal Bihari Vajpayee, had the main objective of achieving "Growth with Social Justice and Equality." It was launched in commemoration of India's 50th year of independence.

Despite its ambitious goals, the Ninth Five-Year Plan fell short of its growth target of 6.5%. It achieved a growth rate of 5.6%, which was lower than anticipated. Several factors contributed to this outcome, including the impact of global economic fluctuations and domestic challenges such as policy implementation issues, infrastructure bottlenecks, and regional disparities.

Although the plan did not meet its growth target, it still made significant contributions in various sectors. The Ninth Five-Year Plan witnessed the launch of key policy initiatives such as the National Highway Development Program, the Pradhan Mantri Gram Sadak Yojana (PMGSY) for rural road connectivity, and the Sarva Shiksha Abhiyan (Education for All) program.

Tenth Five-Year Plan (2002 - 2007)

The Tenth Five-Year Plan was implemented under the leadership of both Prime Ministers Atal Bihari Vajpayee and Manmohan Singh. The primary objective of this plan was to double India's per capita income within a decade, with the goal of reducing the poverty ratio to 15% by 2012.

Despite the ambitious targets, the Tenth Five-Year Plan fell slightly short of its growth target. It achieved a growth rate of 7.7%, which, although substantial, was slightly below the intended 8.1%. Various factors contributed to this outcome, including global economic uncertainties and domestic policy challenges.

The plan prioritized infrastructure development, with a particular focus on roads, railways, power generation, and telecommunication networks. Additionally, the plan emphasized the importance of inclusive growth and social welfare programs. Initiatives such as the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) were launched to provide employment opportunities to rural households and alleviate poverty.

Eleventh Five-Year Plan (2007 - 2012)

The Eleventh Five-Year Plan under the leadership of Prime Minister Manmohan Singh, focused on the theme of "rapid and more inclusive growth." The plan was prepared by economist C. Rangarajan and

aimed to address the challenges of poverty, unemployment, and regional disparities while achieving a high and sustainable growth rate.

Despite the global economic slowdown and other challenges, the Eleventh Five-Year Plan achieved a commendable growth rate of 8%. While it fell slightly short of the targeted 9% growth, it still marked a significant achievement given the prevailing economic conditions.

Twelfth Five-Year Plan (2012 - 2017)

The Twelfth Five Year Plan aimed to achieve "Faster, More Inclusive, and Sustainable Growth" for the country. The key focus areas of the plan included economic development, poverty reduction, social inclusion, and environmental sustainability.

India's shift towards market-oriented reforms in the 1990s

India's economic situation in the early 1990s

Slow Economic Growth: India's economy was growing at a sluggish pace. The traditional socialist economic model had led to inefficiencies, low productivity, and a lack of competitiveness, hindering the country's growth potential.

Fiscal Imbalance: High government spending, coupled with subsidies and welfare programs, resulted in a strain on public finances and a crowding out of private investment.

Inefficient Public Sector: The public sector, which played a dominant role in various industries, suffered from inefficiencies, overstaffing, and lack of accountability. State-owned enterprises faced financial losses, low productivity, and were unable to keep pace with global competition.

The immediate reasons that compelled India to undertake market-oriented reforms in the 1990s:

1. **Balance of Payments Crisis:** India was facing a severe shortage of foreign exchange reserves, which threatened the country's ability to meet its international payment obligations.
2. **Liberalization Wave:** The global economic landscape was witnessing a wave of liberalization and globalization, with countries opening up their economies and embracing market-oriented policies. India recognized the need to align itself with these global trends to tap into international markets and attract foreign capital.
3. **External Pressure:** International financial institutions, such as the International Monetary Fund (IMF) and the World Bank, exerted pressure on India to undertake structural reforms as a condition for financial assistance and loans. This external pressure acted as a catalyst for India to initiate market-oriented reforms.

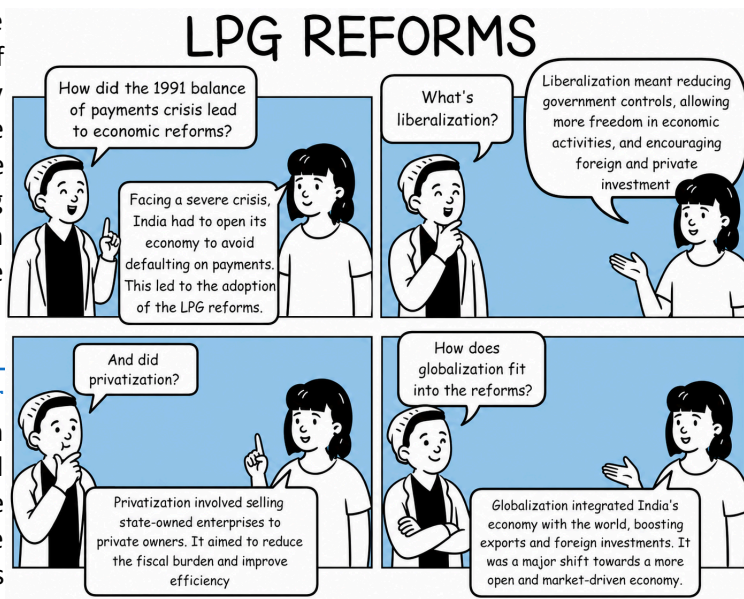
Overview of liberalization, privatization, and globalization policies

In the early 1990s, India introduced a set of policies known as liberalization, privatization, and globalization (LPG) to transform its economy and integrate with the global market.

Liberalization

1. **Reduction of import tariffs:** India gradually lowered import duties to promote international trade and open up the domestic market. For example, the average import duty was reduced from around 85% in the early 1990s to around 30% by the mid-1990s.
2. **Foreign direct investment (FDI) liberalization:** Restrictions on foreign investment were relaxed, allowing greater foreign participation in key sectors. For instance, sectors like telecommunications, automobiles, and insurance were opened up to FDI, leading to the entry of international companies and increased investments.
3. **Liberalization of the banking sector:** Private and foreign banks were permitted to operate in India, breaking the monopoly of public sector banks. This led to increased competition and improved banking services.

4. **Interest rate liberalization:** The government moved towards market-determined interest rates, allowing banks to set their own lending and deposit rates.
5. **Capital market reforms:** The Securities and Exchange Board of India (SEBI) was given statutory powers to regulate and develop the capital market. Measures such as the introduction of electronic trading and the liberalization of foreign institutional investments (FIIs) were implemented.



Privatization

1. **Disinvestment of public sector enterprises:** The government began selling off its stake in state-owned enterprises to reduce the role of the public sector and encourage private investment. For example, companies like Maruti Udyog (automobiles) and Bharat Aluminium Company (BALCO) were partially or fully privatized.
2. **Deregulation of industries:** Licensing requirements and regulations were eased or abolished to foster competition and promote entrepreneurship. Industries like telecommunications, aviation, and banking witnessed significant deregulation, allowing for increased private sector participation.

Globalization

1. **Current account convertibility:** India gradually relaxed restrictions on the convertibility of the rupee for current account transactions, facilitating international trade.
2. **Reduction of import licensing:** Import licensing requirements were simplified, reducing bureaucratic hurdles and facilitating imports.

Outcomes of LPG Reforms

1. **Economic Growth:** The LPG reforms played a significant role in driving India's economic growth. The average GDP growth rate increased from around 4% in the pre-reform era to over 7% in the post-reform period.
2. **Foreign Direct Investment (FDI):** The LPG reforms attracted substantial foreign direct investment into India. This infusion of foreign capital helped modernize industries and fostered technological advancements, such as in the automotive sector where global automobile companies set up manufacturing plants in India.
3. **Technological Advancements:** The LPG reforms facilitated the transfer of technology and know-how to Indian firms. For instance, the information technology sector experienced remarkable growth, with Indian companies becoming major players in global IT services.
4. **Industrial and Sectoral Transformation:** The LPG reforms led to a transformation of industries and sectors. The delicensing and privatization of industries resulted in increased competition and efficiency. One notable example is the telecom sector, where privatization and competition led to a significant expansion in mobile phone usage and affordable connectivity for millions of Indians.
5. **Global Integration:** The LPG reforms opened up the Indian economy to global markets. India became an active participant in international trade, and its merchandise exports grew from \$18.1

billion in 1991 to around \$437.4 billion in 2024-25.

6. **Rise of Indian Multinational Companies:** The LPG reforms empowered Indian companies to expand globally. Some Indian companies, such as Tata Group, Infosys, and Reliance Industries, emerged as multinational corporations with operations and investments in multiple countries.
7. **Employment Generation:** The LPG reforms led to increased job opportunities across sectors. For instance, the IT and business process management (BPM) industry employed over 4.4 million professionals in 2020.
8. **Improved Infrastructure:** The LPG reforms brought investments in infrastructure development. For example, the Golden Quadrilateral project, initiated in 1999, improved road connectivity across major cities in India.
9. **Consumer Choices and Quality:** Liberalization and increased competition resulted in a wider range of choices and improved quality of goods and services for consumers. For instance, the availability of affordable smartphones and internet connectivity has brought digital services and e-commerce within reach of millions of Indians, transforming the way they access information, make purchases, and conduct business.
10. **Entrepreneurship and Innovation:** The LPG reforms fostered a culture of entrepreneurship and innovation in India. The startup ecosystem witnessed significant growth, with India ranking third globally in terms of the number of startups. Startups such as Flipkart, Ola, and Paytm have disrupted traditional sectors and introduced innovative business models.
11. **Poverty Reduction:** The sustained economic growth resulting from the LPG reforms has had positive impacts on poverty reduction.

Unintended outcomes of the LPG reforms

1. **Income Inequality:** While the reforms led to overall economic growth, the benefits were not equally distributed among all segments of society. The gap between the rich and the poor widened, leading to increased income disparities.
2. **Regional Disparities:** The LPG reforms had a varying impact on different regions of India. Some regions, particularly urban areas and states with better infrastructure and education, experienced faster growth and development. However, rural areas and economically disadvantaged regions faced challenges in adapting to the new economic environment, resulting in regional disparities.
3. **Job Displacements:** The reforms, particularly in sectors like agriculture and manufacturing, led to job displacements and restructuring. As industries became more competitive, some traditional sectors faced challenges, and workers in these sectors were affected by layoffs or shifts in employment patterns.
4. **Environmental Concerns:** The increased industrial activity, urbanization, and consumption patterns resulted in environmental degradation, including pollution, deforestation, and resource depletion.
5. **Social Impact:** The LPG reforms brought changes in social structures and norms. Traditional sectors and small-scale industries faced challenges in adapting to the new competitive environment, leading to social disruptions. Additionally, the increased influence of consumerism and market-driven values had an impact on social and cultural aspects of Indian society.
6. **Vulnerability to Global Economic Fluctuations:** The increased integration of the Indian economy with the global market made it more susceptible to global economic fluctuations. The 2008 global financial crisis and subsequent global recessions had spill-over effects on the Indian economy, leading to slower growth rates and increased vulnerabilities.
7. **Financial Sector Risks:** The liberalization of the financial sector brought opportunities but also exposed the economy to financial risks. Instances of financial fraud, market volatility, and banking sector vulnerabilities emerged, highlighting the need for effective regulatory mechanisms and risk

management practices.

8. **Loss of Government Control:** As a consequence of privatization, the government lost control over certain key sectors and industries which raised concerns related to national security and public welfare.

Premature Deindustrialization and Growth of Services in India

Premature Deindustrialization: Premature deindustrialization refers to the decline of the industrial sector before reaching its full potential. It is characterized by decreased industrial sector contribution to GDP, employment, and growth rate.

Causes of Premature Deindustrialization:

1. **Lack of Infrastructure Investment:** Poor infrastructure hampers effective industrial operations and slows growth.
2. **High Cost of Doing Business:** High taxes, bureaucratic hurdles, and energy costs deter industrial growth.
3. **Limited Access to Credit:** Difficulty in accessing credit hinders investment in new technologies and expansion.
4. **Protectionism:** Protectionist policies hinder competition and innovation, limiting industrial growth.
5. **Low Labor Productivity:** Lower labor productivity compared to other countries affects competitiveness.

Reasons for Growth of Services:

1. **Skilled Labor Force:** India's educated and fluent in English skilled workforce fuels service sector growth, especially in IT and BPO.
2. **Low Capital Requirement:** Services require less capital investment compared to heavy industries.
3. **Economic Liberalization (1991):** Liberalization policies attracted foreign investment, boosting service sector growth.
4. **Government Support:** Pro-service policies, tax incentives, subsidies, and infrastructure investment aided growth in Service sector.

Can India Become Developed Without Strong Industry?

While India's service sector has propelled growth, a strong industrial base remains crucial.

Benefits of Strong Industrial Base:

1. **Employment Generation:** Industry creates more jobs, especially for less-skilled workers.
2. **Diversified Economy:** A mix of agriculture, industry, and services ensures economic stability.
3. **Technological Innovation:** Industrialization fosters innovation, research, and development.
4. **Export Competitiveness:** Industrial products contribute significantly to exports, boosting foreign exchange earnings.
5. **Balanced Regional Development:** Industrialization reduces urban-rural disparities and promotes inclusive growth.

India's premature deindustrialization and rapid service sector growth reflect a complex economic landscape. While service sector growth is valuable, a balanced and diversified economy with a strong industrial base is essential for sustainable and holistic development. A renewed emphasis on the manufacturing through programmes like 'Make in India' will serve to correct this anomaly.

Criticisms of the Planning Commission

1. **Lack of constitutional mandate:** The Planning Commission operated as an extra-constitutional body, meaning it was not established or mandated by the Constitution of India. This led to criticism

regarding its legitimacy and authority to make decisions and allocate resources.

2. **Lack of accountability and transparency:** The Planning Commission was criticized for its opaque functioning and lack of accountability to the public.
3. **One-size-fits-all approach:** The Commission was accused of following a uniform planning approach that did not take into account the specific needs and challenges of different states and regions.
4. **Inefficient allocation of resources:** The Commission's centralized planning approach was criticized for leading to inefficient allocation of resources.
5. **Slow decision-making:** The Commission was often criticized for its slow decision-making process, which hampered the implementation of development projects.

The decision to abolish the Planning Commission was made by the Indian government in 2014, recognizing the need for a more modern and effective institution to address the country's developmental challenges.

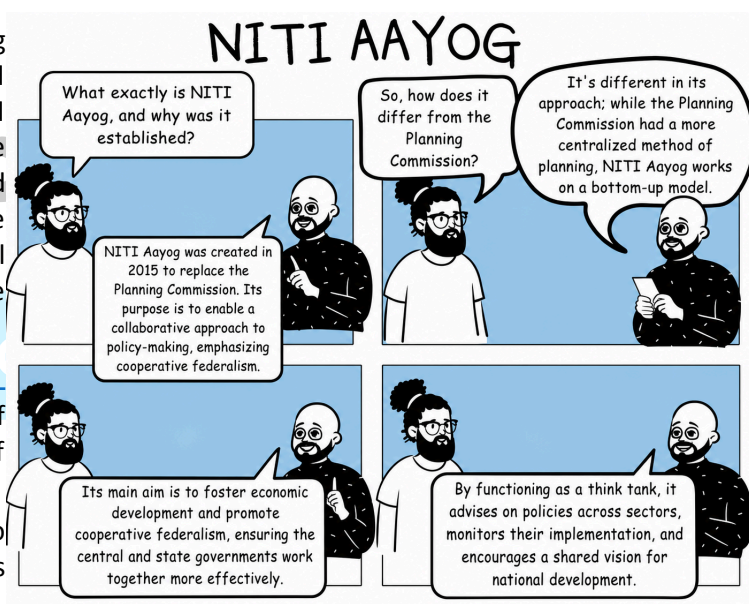
Formation of NITI Aayog (National Institution for Transforming India)

NITI Aayog was established on January 1, 2015, as a replacement for the Planning Commission. It was aimed at fostering cooperative federalism and transforming India into a dynamic, knowledge-based, and inclusive society.

Shift in approach: NITI Aayog adopted a more decentralized and participatory approach to planning and policy-making, promoting the involvement of states, experts, and stakeholders. It aimed to promote the concept of "Team India" by involving all levels of government in the decision-making process.

Structure of NITI Aayog

1. **Chairperson:** The Prime Minister of India serves as the chairperson of NITI Aayog.
2. **Vice-Chairperson:** NITI Aayog also has a vice-chairperson, who is appointed by the Prime Minister.
3. **Governing Council:** NITI Aayog also has a Governing Council, which serves as the apex body of the institution. It includes the Prime Minister as the Chairperson, Chief Ministers of all states and union territories, Lieutenant Governors of union territories, and other members as deemed necessary.
4. **Full-time Members:** The Aayog has a maximum of five full-time members, who are appointed by the Prime Minister based on their expertise and experience in different sectors. These members are responsible for guiding and advising the Aayog on its policies and initiatives.
5. **Ex-officio Members:** The Aayog also includes certain ex-officio members, who are appointed due to their official positions in the government. These members include the Ministers of Finance, Agriculture, Home Affairs, and Human Resource Development.
6. **Special Invitees:** NITI Aayog may invite experts, specialists, and representatives from the private sector, civil society organizations, and international organizations to participate in its meetings and deliberations. These special invitees provide valuable input and guidance to the Aayog.



7. **Regional Councils:** NITI Aayog also includes five regional councils, each representing a geographical region of India - North, South, East, West, and Northeast. The Chief Ministers of the respective states in each region serve as members of their respective councils, along with Union Ministers and other officials.

Features of NITI Aayog

1. **Team India Hub:** NITI Aayog operates the Team India Hub, which acts as a platform for collaboration between central ministries and state governments.
2. **Knowledge and Innovation Hubs:** NITI Aayog establishes Knowledge and Innovation Hubs in various domains to facilitate research, innovation, and knowledge exchange. These hubs serve as centers of excellence, bringing together experts, academia, and industry to generate new ideas and drive policy innovation.
3. **Three Key Documents:**
 - a. **3-Year Action Agenda:** NITI Aayog prepares a 3-Year Action Agenda, which outlines specific policy priorities, targets, and initiatives to be achieved within a three-year timeframe. It provides a roadmap for short-term actions and policy implementation.
 - b. **7-Year Medium-Term Strategy Paper:** The Aayog formulates a 7-Year Medium-Term Strategy Paper, which sets medium-term goals, policy directions, and strategies for achieving sustainable and inclusive growth.
 - c. **15-Year Vision Document:** NITI Aayog develops a 15-Year Vision Document, which provides a long-term vision for India's development. It outlines aspirations, challenges, and strategies to transform India into a prosperous, inclusive, and sustainable society.
4. **Cooperative Federalism:** NITI Aayog recognizes the importance of states as active partners in India's development and fosters collaboration, dialogue, and coordination between the central government and states.
4. **Bottom-Up Approach:** NITI Aayog encourages a bottom-up approach to planning and development. It emphasizes the participation of local communities, grassroots organizations, and civil society in identifying and addressing developmental challenges at the grassroots level.

Comparison of Planning Commission and NITI Aayog

Planning Commission	NITI Aayog
Established in 1950 and abolished in 2014	Established in 2015
Centralized planning and allocation of resources	Policy think tank, coordination, and advisory body
Top-down approach	Bottom-up approach with a focus on cooperative federalism
Centralized decision-making by the Commission	Collaborative decision-making involving central and state governments and other stakeholders
One-size-fits-all approach	Tailored approach to address specific state needs and challenges
Lack of transparency and public accountability	Emphasizes transparency and accountability through public participation and consultations

Achievements of NITI Aayog

1. **Sustainable Development Goals (SDGs):** NITI Aayog played a pivotal role in aligning India's development agenda with the United Nations' Sustainable Development Goals. It led the formulation of India's National Indicator Framework and facilitated the monitoring and implementation of the SDGs at the national and state levels.

2. **Atal Innovation Mission (AIM):** NITI Aayog launched the Atal Innovation Mission to foster innovation and entrepreneurship among India's youth. Under AIM, initiatives like Atal Tinkering Labs, Atal Incubation Centers, and Atal Community Innovation Centers were established, promoting a culture of innovation and creating a supportive ecosystem for startups.
3. **Aspirational Districts Program:** NITI Aayog initiated the Aspirational Districts Program to drive the development of India's most disadvantaged districts. Through targeted interventions, capacity building, and strategic partnerships, the program aims to uplift these districts and bridge the developmental gaps.
4. **Strategic Planning:** NITI Aayog has introduced long-term vision documents, medium-term strategy papers, and three-year action agendas to guide India's development trajectory. These documents provide a comprehensive roadmap and strategic direction for policy formulation, resource allocation, and program implementation.
5. **Cooperative Federalism:** NITI Aayog has fostered a spirit of cooperative federalism by actively engaging with state governments and involving them in the decision-making process. It has facilitated collaborative platforms and interactions among states, enabling the sharing of best practices, knowledge exchange, and coordination on development initiatives.
6. **International Engagements:** NITI Aayog has played a proactive role in engaging with international organizations, think tanks, and countries. It has facilitated partnerships, collaborations, and knowledge-sharing to draw global best practices, innovative solutions, and expertise to address India's developmental challenges.
7. **Digital Transformation:** NITI Aayog has been at the forefront of driving digital transformation in India. It has advocated for digital governance, promoted digital literacy, and supported initiatives such as Digital India, Digital Payments, and Digital Health, ensuring the inclusion of technology in various sectors to enhance efficiency and service delivery.

Additional Terms and Concepts

Nehru-Mahalanobis Model

The Nehru-Mahalanobis model is an economic development strategy formulated by India's first Prime Minister, Jawaharlal Nehru, and the Indian statistician Prasanta Chandra Mahalanobis. It emphasizes heavy industry and public sector-led industrialization, focusing on building a strong industrial base to drive economic growth.

Previous Years Prelims Questions

1. [2020] With reference to the Indian economy after the 1991 economic liberalization, consider the following statements:

- (1) Worker productivity (Rs per worker at 2004-05 prices) increased in urban areas while it decreased in rural areas.
- (2) The percentage share of rural areas in the workforce steadily increased.
- (3) In rural areas, the growth in the non-farm economy increased.
- (4) The growth rate in rural employment decreased.

Which of the statements given above is/are correct?

- (a) 1 and 2 only
- (b) 3 and 4 only
- (c) 3 only
- (d) 1, 2 and 4 only

2. [2019] With reference to India's Five-Year Plans, which of the following statements is/are correct?

- (1) From the Second Five-Year Plan, there was a determined thrust towards substitution of basic and capital good industries.
- (2) The Fourth Five-Year Plan adopted the objective of correcting the earlier trend of increased concentration of wealth and economic power.
- (3) In the Fifth Five-Year Plan, for the first time, the

financial sector was included as an integral part of the Plan.

Select the correct answer using the code given below.

- (a) 1 and 2 only
- (b) 2 only
- (c) 3 only
- (d) 1, 2 and 3

3. [2017] With reference to 'National Investment and Infrastructure Fund', which of the following statements is/are correct?

- (1) It is an organ of NITI Aayog.
- (2) It has a corpus of Rs. 4, 00,000 crore at present.

Select the correct answer using the code given below:

- (a) 1 only
- (b) 2 only
- (c) Both 1 and 2
- (d) Neither 1 nor 2

4. [2016] With reference to 'Financial Stability and Development Council', consider the following statements:

- (1) It is an organ of NITI Aayog.
- (2) It is headed by the Union Finance Minister.
- (3) It monitors macroprudential supervision of the economy.

Which of the statements given above is/are correct?

- (a) 1 and 2 only
- (b) 3 only
- (c) 2 and 3 only
- (d) 1, 2 and 3

5. [2014] The main objective of the 12th Five-Year Plan is:

- (a) inclusive growth and poverty reductions
- (b) inclusive and sustainable growth
- (c) sustainable and inclusive growth to reduce unemployment
- (d) faster, sustainable and more inclusive growth

Previous Years Mains Questions

1. [2018] How are the principles followed by NITI Aayog different from those followed by the erstwhile planning commission in India?

2. [2014] Normally countries shift from agriculture to industry and then later to services, but India shifted directly from agriculture to services. What are the reasons for the huge growth of services vis-a-vis the industry in the country? Can India become a developed country without a strong industrial base?

3. [2013] Examine the impact of liberalization on companies owned by Indians. Are they competing with the MNCs satisfactorily? Discuss.

Answers: 1. (b), 2. (a), 3. (d), 4. (c), 5. (d)

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20 CHAPTER UNEMPLOYMENT

Unemployment is a term used to describe the situation where people who are willing and able to work are unable to find jobs.

Terms related to Unemployment

Working age population

The working age population refers to the portion of a country's population capable of participating in the labour force. In India's labour force surveys, this generally refers to persons aged 15 years and above.

Labour Force

The labour force includes all individuals who are currently employed or unemployed but looking for work.

People who are not working and not looking for work (such as retirees, students, or those who have given up on finding a job) are not part of the labour force.

The labour force can be broken down by demographic factors: Economists often study the labour force by breaking it down into subgroups based on demographic factors such as age, gender, education level, and occupation. This can help us understand how different groups are faring in the job market and identify areas where there may be barriers to employment.

Labour Force Participation Rate

The labour force participation rate is the percentage of people who are either working or actively seeking work out of the total population of working-age individuals.

$$\text{LFPR} = (\text{Labour Force} / \text{Total number of people in the working-age population}) \times 100\%$$

So, for example, if there are 50 people employed and 10 people actively seeking work out of a total working-age population of 100 people, the labour force participation rate would be:

$$(50 + 10) / 100 \times 100\% = 60\%$$

The labour force participation rate is an important economic indicator because it provides insight into the health of the labour market. A high labour force participation rate can indicate a strong labour market, with many opportunities for employment. On the other hand, a low labour force participation rate can indicate a weak labour market, with fewer job opportunities.

Unemployment Rate

Unemployment rate is a measure of the percentage of the total labour force in an economy that is currently unemployed and actively seeking employment.

$$\text{Unemployment Rate} = (\text{Number of Unemployed} / \text{Labour Force}) \times 100$$

Let's break down this formula with the previous example. If there are 50 people employed and 10 people actively seeking work out of a total working-age population of 100 people, the unemployment rate would be:

$$\text{Labour force} = \text{Number of employed} + \text{Number of unemployed} = 60$$

Now we can plug in the numbers and calculate the unemployment rate:

$$\text{Unemployment rate} = (10 / 60) \times 100\% = 16.67\%$$

Types of Unemployment

Disguised Unemployment

Disguised unemployment is a type of unemployment that occurs when people appear to be employed but are actually not contributing to the economy in a meaningful way. In other words, there are more people working in a particular sector than is actually necessary for the amount of work that needs to be done.

Here's an example to help illustrate this concept. Let's say that there is a small farm that requires 4 people to work it efficiently. However, due to a lack of job opportunities in the area, 8 people are working on the farm. While the extra 4 people may appear to be employed, they are not actually contributing to the productivity of the farm, since the work could be done with fewer people.

Disguised unemployment is often found in agricultural economies, where there may be a lack of alternative employment opportunities. It can also occur in other sectors of the economy, such as construction or manufacturing.

Disguised unemployment can be measured using a concept called the "**Marginal Product of Labour**" (MPL). The MPL is the additional output that is produced when one additional unit of labour is added to the production process. When the MPL is low or zero, it suggests that there may be disguised unemployment in the sector.

$$\text{MPL} = \text{change in output} / \text{change in labour input}$$

If the MPL is low or zero, it suggests that adding additional labour to the production process is not resulting in much additional output. This could indicate that there are too many workers in the sector, and some of them are not actually contributing to the economy.

Structural Unemployment

Structural unemployment is a type of unemployment that occurs when there is a mismatch between the skills and abilities of workers and the jobs that are available in the economy. In other words, it's when people are unemployed because their skills are not in demand in the job market.

One common example of structural unemployment is when a particular industry or sector of the economy experiences a decline and jobs in that area become less in demand. For example, the rise of automation and technology has led to job losses in industries such as manufacturing, where machines and robots can perform tasks that were previously done by human workers. This can result in structural unemployment for workers who have skills and experience in those industries but may not have the necessary skills to transition to new jobs in other sectors of the economy.

Another example of structural unemployment is when there is a lack of education and training opportunities available for workers to acquire the skills needed for jobs that are in demand. This can be especially true for workers in rural or economically disadvantaged areas, where there may be limited access to education and training programs.

By helping workers to develop new skills and transition to new job opportunities, we can reduce the incidence of structural unemployment and promote more inclusive economic growth.

Seasonal unemployment

Seasonal unemployment refers to a type of unemployment that occurs due to seasonal fluctuations in demand for labour. This means that during certain times of the year, there is more demand for workers in certain industries, and during other times of the year, there is less demand. As a result, workers may be unemployed during the off-seasons when there is not enough work available.

One common example of seasonal unemployment is in the agricultural industry. During planting and harvesting seasons, there is a lot of demand for workers to help with the planting, harvesting, and processing of crops. However, during the off-seasons, there is not as much work available in this industry, and workers may be unemployed.

Another example of seasonal unemployment is in the tourism industry. In many tourist destinations, there is a peak season when there are a lot of visitors and a lot of demand for workers in the hospitality and service sectors. However, during the off-seasons, there are fewer visitors and less demand for workers, which can lead to unemployment.

In some cases, seasonal unemployment can also lead to a reduction in wages for workers, as there is more competition for the available jobs during peak seasons.

Governments may try to address seasonal unemployment through policies such as job training programs or by supporting industries that can provide year-round employment. In some cases, governments may also provide unemployment benefits or other forms of support to workers who are unemployed during the off-seasons.

Technological Unemployment

Technological unemployment is a term that refers to the loss of jobs that occurs as a result of advancements in technology. When machines and automation become more efficient and capable than human workers, it can lead to a decrease in demand for human labour and result in unemployment.

One example of technological unemployment is the replacement of human workers with robots in factories.

Another example of technological unemployment is the rise of self-driving cars. While this technology is still being developed, it has the potential to greatly reduce the need for human drivers in industries such as transportation and logistics. If self-driving cars become widespread, it could lead to significant job losses for drivers and other workers in related industries.

It's worth noting that technological unemployment is not a new phenomenon. Throughout history, technological advancements have often led to job losses in certain industries, but they have also created new job opportunities in others. For example, the rise of the internet and e-commerce has led to the creation of new jobs in fields such as web development and online marketing.

However, some economists and researchers have expressed concern that the current wave of automation and artificial intelligence could lead to a greater and more widespread impact on employment than in the past. As technology continues to advance, it's important for policymakers and society as a whole to consider the potential impacts on employment and work to develop solutions to help workers adapt to these changes.

Cyclical or Keynesian Unemployment

Cyclical unemployment is a type of unemployment that occurs as a result of downturn in the business cycle, which leads to a decrease in demand for goods and services, and therefore a decrease in demand for workers.

When the economy is in a downturn or recession, companies may cut back on production and lay off workers in order to save costs. As a result, many workers who were previously employed may find themselves without a job.

For example, during the global financial crisis of 2008, many companies in the United States and around the world were forced to lay off workers in order to stay afloat. This led to a significant increase in the number of people who were unemployed.

Cyclical Unemployment is also known as Keynesian unemployment. As per, John Maynard Keynes, well known economist, the economy is not always self-correcting and can sometimes get stuck in a state

of recession or depression. In his view, government intervention is necessary to stimulate the economy and help it recover from these downturns.

One of the ways Keynes thought the government could intervene was by increasing aggregate demand. Aggregate demand refers to the total amount of goods and services that consumers, businesses, and the government are willing to buy at a given price level. When aggregate demand is low, businesses may not have enough customers to justify hiring new workers, which can lead to unemployment.

In this situation, the government can step in and use various policy tools to increase aggregate demand and stimulate economic growth.

For example, the government might increase spending on infrastructure projects or provide tax incentives to businesses to encourage investment. By doing so, they can create more demand for goods and services, which in turn can lead to more hiring and lower unemployment.

Another way to increase aggregate demand is by lowering interest rates, which can make borrowing cheaper and encourage consumers and businesses to spend more. This can also help stimulate economic activity and reduce unemployment.

Frictional Unemployment

Frictional unemployment is a type of unemployment that occurs when workers are between jobs. It happens when people are in the process of looking for a new job or transitioning from one job to another.

It's called "frictional" unemployment because it's a natural part of the labour market, and it occurs because of the time and effort it takes for workers and employers to find each other and match the right skills to the right job openings. In other words, there is some "friction" or delay in the process of job matching.

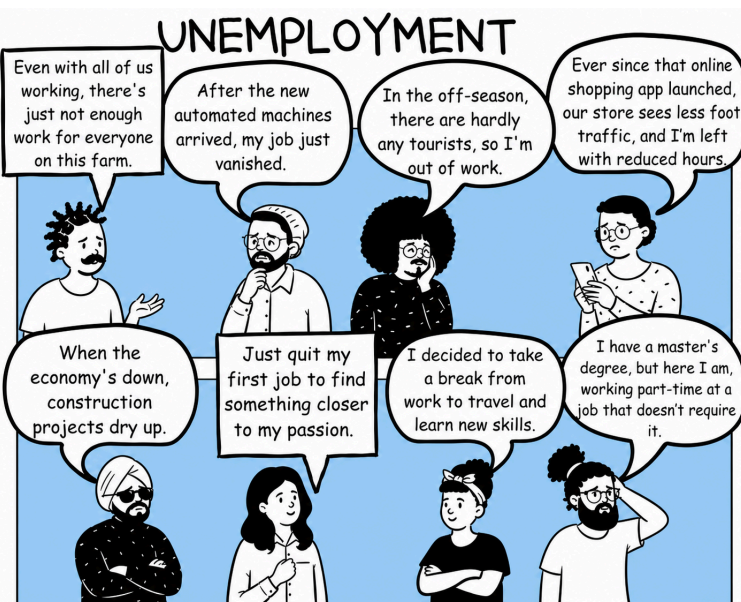
For example, let's say that someone quits their job as a software developer to look for a job as a data analyst. During the time they're searching for a new job, they would be considered frictionally unemployed. They're not unemployed because they lack the skills or qualifications to work, but because they're in between jobs.

Another example of frictional unemployment could be someone who just graduated from college and is actively searching for their first job. They may face a period of unemployment while they search for a job that matches their skills and qualifications.

It's important to note that frictional unemployment is generally considered to be a temporary and short-term phenomenon. In fact, some level of frictional unemployment is actually seen as a good thing because it can help to facilitate better job matches and more efficient use of labour resources in the economy.

Voluntary Unemployment

Voluntary unemployment refers to a situation where a person chooses not to work at the prevailing wage rate or under available working conditions, even though suitable job opportunities are available.



This can occur for a variety of reasons, such as personal preferences, expectation of higher wages, or the pursuit of further education or training.

For example, let's say that a recent college graduate is offered a job with a starting salary that is below their expectations. The graduate may choose not to take the job and instead continue searching for a higher-paying opportunity, even though they are capable of doing the job they were offered. This is an example of voluntary unemployment, as the individual has made a conscious decision not to work at the offered wage, despite the presence of job opportunities.

In some cases, voluntary unemployment can be beneficial for the individual and society. For example, if someone chooses to pursue further education or training, it may lead to increased skills and higher wages in the future, which can ultimately benefit the economy as a whole.

Underemployment

Underemployment refers to a situation where a person is employed but not in a job that fully utilizes their skills, abilities, and education. In other words, they may be working, but they are not able to work as many hours as they would like, or they are working in a job that does not pay as well or provide the same level of job security as they could otherwise have.

An example of underemployment would be a person who holds a degree in engineering but is working as a cashier at a retail store. They are employed, but they are not using their education and skills to their fullest potential, and they may be earning less than they would in a job that better matches their qualifications.

Underemployment can have a number of negative effects on both individuals and the economy as a whole. For individuals, it can result in lower wages, fewer benefits, and reduced job satisfaction. It can also lead to increased stress, depression, and other mental health issues.

From an economic perspective, underemployment can result in a loss of productivity and economic growth. When people are not able to work to their full potential, it can slow down the overall growth of the economy and make it harder for businesses to expand and create new jobs.

Measurement of Unemployment

In India, the National Statistics Office (NSO), which is part of the Ministry of Statistics and Programme Implementation (MoSPI), is responsible for conducting surveys to measure unemployment.

There are several approaches to measuring unemployment, and the NSO uses three main approaches:

1. **Usual Status Approach:** This approach estimates only those persons as unemployed who had no gainful work for a major time during the 365 days preceding the date of the survey. This approach provides a measure of long-term unemployment.
2. **Weekly Status Approach:** This approach considers only those persons as unemployed who did not have gainful work even for an hour on any day of the week preceding the date of the survey. This approach provides a measure of short-term unemployment.
3. **Daily Status Approach:** This approach measures the unemployment status of a person for each day in a reference week. A person who has no gainful work even for 1 hour in a day is described as unemployed for that day. This approach provides a more detailed picture of unemployment patterns over time.

The **Periodic Labour Force Survey (PLFS)** is a comprehensive survey of employment and unemployment conducted by the National Statistics Office (NSO).

The PLFS collects data on a wide range of labour market indicators, including employment, unemployment, and labour force participation rates. It also provides detailed information on the demographic characteristics of the labour force, such as age, sex, education, and occupation.

The survey is conducted using a stratified random sampling method, and covers both rural and urban areas. The sample size is large enough to provide reliable estimates at the national and state levels.

The PLFS has become an important source of data for policymakers, researchers, and analysts interested in understanding the dynamics of the labour market in India. It provides up-to-date information on key labour market indicators, and helps to identify trends and patterns that can inform policy decisions related to employment, training, and social protection.

Note: From 2025, PLFS has been revamped to provide monthly all-India estimates and quarterly estimates for both rural and urban areas under the Current Weekly Status framework.

Elasticity of Employment

The elasticity of employment refers to the responsiveness of employment to changes in economic growth, as measured by the growth rate of GDP.

Elasticity of Employment = % change in employment / % change in GDP

If the elasticity of employment is greater than 1, employment is said to be elastic, which means that employment growth is more responsive to changes in economic growth. Conversely, if the elasticity of employment is less than 1, employment is said to be inelastic, which means that employment growth is less responsive to changes in economic growth.

A situation where the GDP is increasing, but employment is not increasing at the same rate, is known as **jobless growth**. Jobless growth occurs when the economy experiences growth without generating enough new jobs to keep pace with the growth in the labour force. This can happen due to a variety of factors, such as technological advancements that replace human labour, changes in the structure of the economy, or policy issues that discourage job creation.

Causes of Unemployment in India

Unemployment is a major issue in India, and there are a number of different factors that contribute to it. Here are some of the main causes of unemployment in India:

1. **Lack of education and skills:** Many people in India do not have the necessary education or skills to qualify for available job opportunities. This can be due to a lack of access to education, or to an education system that does not adequately prepare students for the workforce. For example, in rural areas of India, many young people do not have access to quality education, which can make it difficult for them to find good jobs later on.
2. **Population growth:** India has a very large population, which means that there are more people competing for a limited number of jobs. This can make it difficult for people to find employment, especially in sectors where job growth is not keeping up with population growth.
3. **Slow economic growth:** When the economy is growing slowly, there are fewer new jobs being created, which can lead to higher levels of unemployment. This can happen for a variety of reasons, such as government policies that discourage investment or slow down economic growth, or external factors like global economic downturns that affect the Indian economy.
4. **Agriculture sector:** Agriculture is a major sector in India, and it employs a large number of people. However, the sector is often characterized by low wages and unstable employment, which can contribute to unemployment. Additionally, many people who work in agriculture do not have access to alternative employment opportunities, which can make it difficult for them to transition to other sectors.
5. **Demographic trends:** India has a young population, with a large number of people entering the workforce each year. While this can be a positive thing in terms of providing a large pool of potential workers, it can also contribute to higher levels of unemployment if job growth does not keep up with population growth.

Impact of Unemployment

1. **Economic impact:** Unemployment can have a negative impact on the economy as a whole. When people are unemployed, they have less money to spend, which can lead to a decrease in demand for goods and services. This can cause businesses to slow down or even shut down, leading to more job losses. It can also lead to a decrease in tax revenues for the government, which can impact public services and infrastructure.
2. **Social impact:** Unemployment can also have a significant social impact. People who are unemployed may experience stress and anxiety due to financial instability, which can impact their mental and physical health. It can also lead to social issues such as poverty, homelessness, and crime. Additionally, long-term unemployment can lead to a loss of skills and self-confidence, making it even harder to find employment in the future.
3. **Political impact:** High levels of unemployment can have political ramifications as well. In some cases, it can lead to social unrest and political instability. Politicians may be pressured to take action to address the issue, such as creating new jobs or implementing policies to support those who are unemployed.

Government Initiatives to control unemployment

1. **Fiscal policy:** This refers to the government's use of taxes and spending to influence the economy. One way to control unemployment through fiscal policy is through government spending on public projects and infrastructure, which can create jobs and stimulate economic growth. For example, the Indian government has launched various infrastructure projects, such as building highways, ports, and airports, to create jobs and promote economic development.
2. **Monetary policy:** This refers to the central bank's control over the supply of money and credit in the economy. One way to control unemployment through monetary policy is through interest rate adjustments, which can influence borrowing and spending. For example, if the central bank lowers interest rates, it can encourage businesses to invest more, which can create jobs and reduce unemployment.
3. **Training and education programs:** Governments can also invest in training and education programs to help workers develop the skills they need to find and keep jobs. For example, the Indian government has launched various initiatives to provide vocational training and skill development programs to unemployed youth, such as the Pradhan Mantri Kaushal Vikas Yojana.
4. **Job creation programs:** Governments can also directly create jobs through various programs and initiatives. For example, the Indian government has launched the Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA), which provides employment to individuals through public works programs.
5. **Entrepreneurship promotion:** Governments can also promote entrepreneurship and self-employment as a way to create jobs and reduce unemployment. For example, the Indian government has launched the Startup India initiative, which provides funding, mentoring, and other support to entrepreneurs to help them start and grow their businesses.

Four New Labour Codes

Labour laws in India were earlier scattered across 29 central labour laws, many of which were old, complex, and overlapping. This made compliance difficult for employers and understanding difficult for workers. To address these issues, the Government consolidated these laws into four comprehensive labour codes. The four Labour Codes have been made effective from November 2025. The aim is to create a modern, transparent, and simplified system that balances the interests of workers and employers.

1. Code on Wages, 2019

This code merges four earlier laws relating to wages, payment of wages, bonus, and equal remuneration. Its main features are:

- It introduces a single and uniform definition of 'wages', which avoids confusion that previously arose when different laws defined wages differently.
- It provides for the setting up of a national floor wage by the central government. States cannot fix minimum wages lower than this floor, although they are free to set higher wages depending on local conditions.
- The code mandates timely payment of wages to all employees, whether in the organized or unorganized sector.
- It strengthens provisions of equal pay for equal work for men and women.

2. Code on Social Security, 2020

This code consolidates nine earlier laws related to social security, including the Employees' Provident Fund (EPF), Employees' State Insurance (ESI), maternity benefits, gratuity, and others. Its main features are:

- Extending the coverage of social security schemes to a much larger workforce, including those in the unorganized sector.
- For the first time in India, it explicitly recognizes gig workers and platform workers (for example, drivers working with Ola/Uber or delivery partners with Swiggy/Zomato) and provides for the creation of schemes for their social security.
- The code allows social security schemes to be funded jointly by the government, employers, aggregators, and in some cases, the workers, so that the burden does not fall on one party alone.
- It also makes some benefits, like gratuity, available to fixed-term employees after one year of continuous service, so that more workers can qualify for these benefits.

3. Occupational Safety, Health and Working Conditions (OSH) Code, 2020

This code brings together 13 existing laws that dealt with safety, health, and working conditions in different kinds of establishments. Its main features are:

- It sets uniform standards for working conditions, including maximum working hours, leave, and safety provisions.
- It applies to establishments employing 10 or more workers, while certain hazardous industries are covered even if they employ fewer workers.
- It requires employers to provide a safe and hygienic working environment, including adequate ventilation, drinking water, canteens, and restrooms, wherever applicable.
- The code pays special attention to inter-state migrant workers. It provides benefits such as annual travel allowance, portability of PDS and social security benefits, and access to a toll-free helpline.

4. Industrial Relations Code, 2020

This code consolidates three earlier laws dealing with trade unions, industrial disputes, and employment conditions. Its main features are:

- Simplifying the recognition and regulation of trade unions.
- Laying down clearer procedures for strikes and lockouts. For example, workers are required to provide prior notice before going on strike.
- Providing greater flexibility to employers for layoffs, retrenchment, and closure in establishments with up to 300 workers (earlier the limit was 100). This change is aimed at giving firms more operational flexibility.
- Encouraging conciliation and dispute resolution mechanisms to reduce industrial conflict.

Impact of the New Labour Codes

The expected impact can be seen from both the employer's and the worker's perspective.

Positive Impacts

- **Simplification and clarity:** By reducing 29 laws into 4 codes with consistent definitions, the new framework makes compliance easier for employers and improves transparency for workers.
- **Better protection of workers:** Provisions like the floor wage, equal remuneration, and timely payment of wages strengthen the rights of workers, especially those in vulnerable categories.
- **Recognition of new forms of work:** The explicit inclusion of gig and platform workers in social security marks a major step forward in adapting labour laws to the changing nature of employment in the digital economy.
- **Improvement in ease of doing business:** Simplified labour laws reduce compliance costs for firms, encourage investment, and are expected to help India become a more attractive destination for manufacturing and services.

Challenges

- **Implementation at the state level:** Labour is a subject in the Concurrent List of the Constitution. While the Centre has passed the codes, their actual implementation depends on rules notified by states. This could lead to delays and variations in enforcement.
- **Worker security vs. employer flexibility:** Some provisions, especially those related to easier retrenchment and stricter strike regulations, are seen by trade unions as diluting the bargaining power and job security of workers.
- **Awareness and enforcement issues:** A large number of workers in the informal sector may remain unaware of their rights under the new codes, unless there is active dissemination of information and strong enforcement mechanisms.

The four labour codes are an attempt to strike a balance between protecting workers' welfare and providing flexibility to employers in a competitive global economy.

Additional Terms and Concepts

Natural Rate of Unemployment

The natural rate of unemployment is the level of unemployment that exists when the economy is at full employment, accounting for frictional and structural unemployment. It is the rate at which the labour market is in equilibrium, with no cyclical unemployment.

Example: In an economy, even when it is doing well, there will still be some people who are unemployed because they are changing jobs (frictional unemployment) or because their skills do not match the available jobs (structural unemployment). If the natural rate of unemployment in India is estimated to be 2%, this means that even when the economy is performing optimally, about 2% of the labour force will be unemployed due to these factors.

Hysteresis in Unemployment

Hysteresis in unemployment refers to the phenomenon where high levels of unemployment can become persistent and self-perpetuating, even after the initial causes of the unemployment have been resolved. This can happen because long-term unemployment erodes workers' skills and makes them less employable.

Example: During an economic downturn, a large number of workers in India lose their jobs. As the economy recovers, some of these workers remain unemployed because they have been out of work for so long that their skills have deteriorated, or they are perceived as less attractive to employers. This persistent unemployment, even after the economy has improved, is an example of hysteresis.

Unemployment Trap

An unemployment trap occurs when individuals are discouraged from working because the financial benefits of being unemployed (such as welfare payments) outweigh the financial benefits of working. This creates a disincentive to seek employment.

Example: In parts of USA, the government provides unemployment benefits that are relatively high compared to the wages available for low-skilled jobs. As a result, some individuals may find that they are better off financially by remaining unemployed and receiving benefits rather than taking up low-paying jobs. This situation creates an unemployment trap.

Hidden Unemployment

Hidden unemployment refers to people who are not counted in official unemployment statistics because they are not actively seeking work, even though they would like to work. This can include discouraged workers who have given up looking for jobs or those working part-time but desiring full-time employment.

Example: In a rural area of India, many people may have stopped looking for jobs because they believe there are no opportunities available. They are not included in the official unemployment rate because they are not actively seeking employment, but they are still unemployed in the sense that they want to work. This is an example of hidden unemployment.

NAIRU (Non-Accelerating Inflation Rate of Unemployment)

NAIRU is the level of unemployment at which inflation does not accelerate. It represents a balance where the labour market is tight enough to prevent wages from rising too quickly, which would lead to higher inflation, but not so tight that it causes inflation to fall.

Example: If India's NAIRU is estimated to be 5%, this means that when the unemployment rate is at 5%, inflation remains stable. If unemployment falls below 5%, wage pressures increase, leading to higher inflation. Conversely, if unemployment rises above 5%, inflationary pressures decrease.

Previous Years Prelims Questions

[2013] Disguised unemployment generally means:

- (a) large number of people remain unemployed
- (b) alternative employment is not available
- (c) marginal productivity of labour is zero
- (d) productivity of workers is low

Previous Years Mains Questions

1. **[2024]** Discuss the merits and demerits of the four 'Labour Codes' in the context of labour market reforms in India. What has been the progress so far in this regard?
2. **[2023]** Most of the unemployment in India is structural in nature. Examine the methodology adopted to compute unemployment in the country and suggest improvements.

Answers: 1. (c)

Well, this is the last note.

Writing a book is mostly a solitary activity. You sit in a room, stare at a screen for days and months,

and hope that what you're writing will be useful to someone someday.

That's why every email, review, recommendation, and social media post means far more than you might imagine. It's one of the few ways an author gets to hear back from the people on the other side of the pages.

If this book helped you, even a little, I'd be grateful if you shared your experience. You can leave a review on Amazon or Flipkart (or wherever you bought the book), or post about it on social media and tag @ketanomy.

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Thank you for reading.

And all the very best for the examination. I hope the questions are kind.

Best wishes,

Ketan

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