Impact of Global Economic Crisis on Employment Perspective and Labour Policy in India

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Abstract

The generation of productive and, gainful employment, with decent working conditions, on a sufficient scale to absorb our growing labour force is crucial for economic growth. If the economy faces an economic crisis in the form of Global economic crisis that surfaced in the recent past this becomes the most important tool for countering it. The problem is accentuated by the fact that even the relatively higher rate of growth achieved during the last fifteen years or so is not seen to generate a sufficient volume of good quality employment.

The recent experience with employment growth presents a mixed picture. If we focus on the most recent period, 1999–2000 to 2009-10, the reappears to be acceleration in employment growth compared with the preceding period which is consistent with expectations, given the acceleration in GDP growth. However, looking at longer term trends, this acceleration in employment growth disappears and in any case threat of unemployment has increased throughout. Concerns about the quality of employment appear valid although different sources of data are not easily reconciled. However, it does appear that total employment provided by the organized sector has expanded in the period 1999–2000 to 2009-10and this is entirely because of the growth of informal employment in the organized sector (11th Plan, GoI).

Faced with Global economic Challenge the employment strategy must ensure rapid growth of employment while also ensuring an improvement in the quality of employment. While self employment will remain an important employment category in the foreseeable future—it accounts for 58% of all employment—there is need to increase the share of regular employees in total employment, this category has increased from 17% of total employment in 1983 to18% in 2007-08. It should be the focus of policy to achieve a substantial increase in the share of regular employment

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with a matching reduction in the share of casual employment which at present is as high as 23%. The above analysis implies that the success of labour policy should be seen in terms of the number of regular wage employment opportunities based on some form of a written contract between the employer and the employee, that is, an increase in the number of 'formal' jobs. The potential for creation of formal employment can be fully utilized by making appropriate changes in rules and procedures. It is often said that one of the obstacles to growth of formal employment in the organized sector is the prevalence of excessively rigid labour laws which discourage such employment. Steps should be taken for a greater flexibility in labour laws.

The present paper explores these possibilities in the light of global economic crisis. The paper is divided into four sections the first section discusses the global economic crisis the second section discusses the employment perspective; the third section discusses its impact on Indian employment sector discusses the government policies and, the shortcomings; the fourth section gives conclusion.

Keywords: Globalization, Employment, Labour, Green jobs.

I

The current global crisis began in the housing sector of the US economy, spilled over into the financial sector moving on to the real sector of the developed and developing world, causing immense hardship for millions of poor and vulnerable people in developing countries in the process. Despite tentative signs of recovery more recently, the economic and human costs of the crisis have been considerable.

What is Global Economic Crisis

The current global economic crisis is widely viewed as a glaring example of limitless pursuit of greed and overindulgence at the expense of caution, prudence, due diligence and regulation. It is true that people who break the rules create consequences and, like a stone thrown in a pond, its ripples move ever outward. Wall Street firms broke the financial rules and regulations and the people of the world in general and the US in particular are being called upon to bear the brunt of it[1] (Rajya Sabha Secretariat 2009).

Experts have held that the nature of US economy has contributed to the globalization of the crisis. America's financial system failed in its two crucial responsibilities: managing risk and allocating capital. It is viewed that a massive set of micro-failures gave rise to a massive macro-failure. Not only had the US financial sector made bad loans, they had engaged in multi-billion dollar gambles with each other through derivatives, credit default swaps, and a host of new instruments, with such opacity and complexity that the banks couldn't even ascertain their own balance sheets, let alone that of any other bank to whom they might lend. Credit markets froze[2]. The dysfunctional US financial sector has immensely contributed towards the distortions in the global financial system. Regrettably, many of the worst elements of the US financial system

were exported to the rest of the world.[3] Therefore, the financial turmoil which emerged in the US not only engulfed that country but also the whole world. Nations, far away from the US are scared by the collapse of some of the giants of the financial world.

It has been viewed that the process of financial globalization has undermined the demand management in the capitalist countries and removed a host of regulatory measures, which were advocated by John Maynard Keynes. It is a fact that currently the demand generation is coming from the stimulation of private expenditure, often associated with creation of bubbles in asset prices rather than from the public expenditure, associated with maintaining stability in asset prices. With the free global mobility of finance, the autonomy of the State to intervene meaningfully in the national economy has been significantly undermined. This has also considerably exposed the system to the whims and caprices of the speculators, causing grievous damage to the stability and sustainability of the system by affecting productive investment and augmenting the level of demand, output and employment. In this liberal setting, enforcement of regulation has become the greatest casualty. In the market driven economy, the ability of the market to be self-adjusting and self-correcting was given too much credence.

I.I

What caused the crisis?

Boom in World Economy and Thriving Asset Prices

The years that preceded the recent turbulence saw an exceptionally strong performance of the world economy – another phase of what has come to be known as the "Great Moderation". Following the global slowdown of 2001, the world economy had recovered rather rapidly, posting record growth rates in 2004, 2005 and 2006. The long period of abundant liquidity and low interest rates prior to the crisis led to a global search for yield and a general under-pricing of risk by investors. Lending volumes increased substantially in many countries, due to a decline in lending standards and increased leverage, contributing to bubbles in asset prices and commodities.

Genesis and development of the crisis

(i) Sub-prime10 mortgage: The current global economic crisis has originated in the sub-prime mortgage crisis in USA in 2007. With easy availability of credit at low interest rates, real estate prices in US had been rising rapidly since the late 1990sand investment in housing had assured financial return. US home-ownership rates rose over the period 1997-2005 for all regions, all age groups, all racial groups, and all income groups[4].

(ii) ***Securitization[5] and Repackaging of Loans***

The mortgage market crisis that originated in the US was a complex matter involving a whole range of instruments of the financial market that transcended the boundaries of sub-prime mortgage. An interesting aspect of the crisis emanated from the fact that the banks/ lenders or the mortgage originators that sold sub-prime housing loans did not hold onto them. They sold them to other banks and investors through a process called securitization. Securitization, as a financial process, has gained wide currency in the US in the last couple of decades.

(iii)**Excessive Leverage**

The final problem came from excessive leverage. Investors bought mortgage-backed securities by borrowing. Some Wall Street Banks had borrowed 40 times more than they were worth. In 2004 the Securities and Exchange Commission (SEC) allowed the five largest investment banks– Merrill Lynch, Bear Stearns, Lehman Brothers, Goldman Sachs and Morgan Stanley – to more than double the leverage they were allowed to keep on their balance sheets, i.e. to lower their capital adequacy requirements.

The Basel-II framework evolved by the Bank of International Settlements (BIS) in 2006 sets a CRAR of 9 per cent for adoption by banking regulators globally. However, at the end of the year 2007, the Federal

National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation(Freddie Mac) had an effective leverage of an astounding 65 times and79 times, respectively. And the leverage ratio for the big five investment banks at 2007 year end was 27.8 times for Merrill Lynch, 30.7 times for Lehman Bros., 32.8 times for Bear Stearns, 32.6 times for Morgan Stanley and26.2 times for Goldman Sachs. These investment banks had become the reference point of excessive leverage (Rajadhyaksha, 2008).

The basic economic philosophy of free-market capitalism has come under considerable strain. The crisis has generated doubt about the basic idea of deregulation, non-governmental intervention in the private sector, and free and open markets for goods, services and capitals. In the aftermath of the crisis, the need has been felt for greater regulation for financial products, increased government intervention in the oversight and management of banks, financial institutions. Trends towards state capitalism, in which governments either nationalize or own shares of companies, are rising, even in the west. Nationalization of banks, insurance companies and other financial institutions as well as government liquidity injections and loans to private corporations have become part of rescue and stimulus packages.

II Employment Perspective

If the year 2008 can be termed as a year of financial crisis, will 2009 be labeled as a year of unemployment crisis? Will India fall prey to that crisis resulting in further slowdown of growth rate? Well, economists, who are now-a-days busy interpreting the cascading effects of global unemployment crisis on the domestic economy, feel that it is no doubt a bigger threat than the deepening recession but India[6]

At the peak of the worldwide recession that began in 2008, the International Labor Office announced that global unemployment reached the highest level on record. More than 200 million people, 7 percent of the global workforce, were looking for jobs in 2009.

India is committed to achieving Millennium Development Goal of achieving full and productive employment and decent work for all including women and young people.

The role of policies aimed at enhancing labour supply, including financial incentives to work, are especially important from the perspective of protecting the most vulnerable groups threatened by a durable exclusion from the labour market. Policies that promote wage moderation alleviate nominal wage rigidities and cut labour taxes will result in a reduction in structural unemployment as well as boosting competitiveness and adjustment capacity. Policies that facilitate labour market transitions (e.g. active labour market policies such as training and public placements) are necessary to ease the short-run adjustment as well as to smoothen the longer run reallocation of resources. In this context, the careful withdrawal of provisions to support short term working arrangements important in addressing the immediate consequences of the crisis – will be essential.

How sensitive is the unemployment rate to economic growth? That depends on several factors, most notably on labor market conditions and regulations. One estimate of the strength of this relationship for the U.S. economy comes from *Okun's Law* (named after the late U.S. economist Arthur Okun), which postulates that a decline in unemployment by 1 percentage point corresponds to a 3 percent rise in output. More recent estimates find that the consequent rise in output may be lower, possibly between 2 and 3 percent.

However, in 2000swhen the global economy was prospering inflation rate did not fall to zero, because it is a complex mix of factors that impact upon the unemployment rate, a few are enumerated below:

- Firstly it is a matter of wages, or the unit price of labor, not adjusting to clear the market. Skilled workers are not willing to work below *reservation wages*.
- Secondly, the wage an employer is willing to pay may be lower than the legal *minimum wage* set by governments to try to ensure that wages can sustain a living.
- Rigidities in the labor market lead to a shortage of jobs, it creates *structural unemployment*, and those who are structurally unemployed remain unemployed for longer periods.
- Some level of unemployment will always exist for no other reason than that there always will be some people who are between jobs or just starting out their careers. These people are unemployed not because there is a shortage of jobs in the

market, but because finding a job takes time. Such temporary spells of unemployment are referred to as *frictional unemployment*.

The unemployment rate has both social and economic implications. Among them are:

• Rising unemployment results in loss of income for individuals, reduced collection of taxes for governments, and increased pressure on government spending on social benefits.

• Beyond its financial and social effects on personal life – long-term unemployment negatively affects social cohesion and hinders economic growth, of particular concern to policymakers.

• The effects of high (and particularly prolonged) unemployment go beyond the borders of a particular nation and can have a major impact on the economies of its trading partners of that nation as well, because reduced employment in one country leads to a decrease in demand for exports from its trading partners.

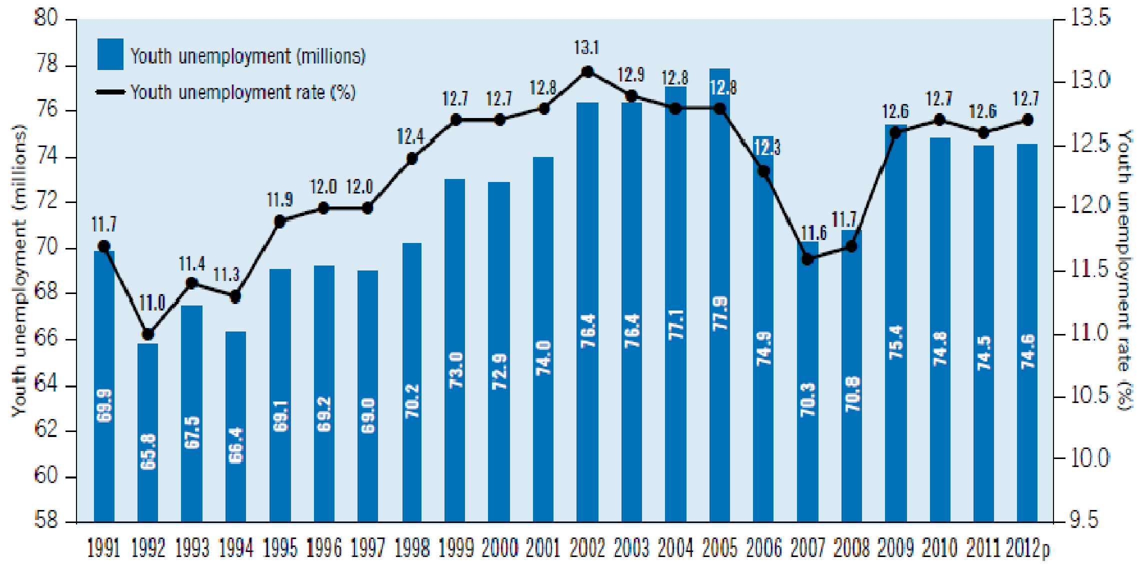
According to International Labour Organization (ILO) estimates, the global economic crisis increased world unemployment from 178 million in 2007 to 212 million in late 2009.

In the United States, the unemployment rate hit a record high in 2010 (9.6 %,) but then started decreasing. It was 8.9% in 2011 and, as of April 2012, it had fallen to 8.1% (data from the Bureau of Labor Statistics of the U.S. Government.)[7]

II.I Employment for Youth

Discouraged by high youth unemployment rates, many young people have given up the job search altogether, or decided to postpone it and continue their stay in the education system. If the unemployment rate is adjusted for the drop-out induced by the economic crisis, the global youth unemployment rate for 2011 would rise from 12.6 to 13.6 per cent. The crisis-induced withdrawal from the labour force amounts to 6.4 million young people worldwide, and is particularly pronounced in the Developed Economies & European

Union. Pressure on young job seekers will mount further when those young people that have been delaying their entry into the labour market will return to activity, and start searching for work. In contrast, the youth participation rate in Central & South-Eastern Europe (non-EU) & CIS is higher than expected on the basis of pre-crisis trends, which is likely to be partly poverty-driven. Participation rates of young men and women are not only driven by economic conditions but also by institutional factors such as broader societal values, culture and norms which are particularly important in regions with large gender gaps such as South Asia, the Middle Eastand North Africa (ILO, 2012)



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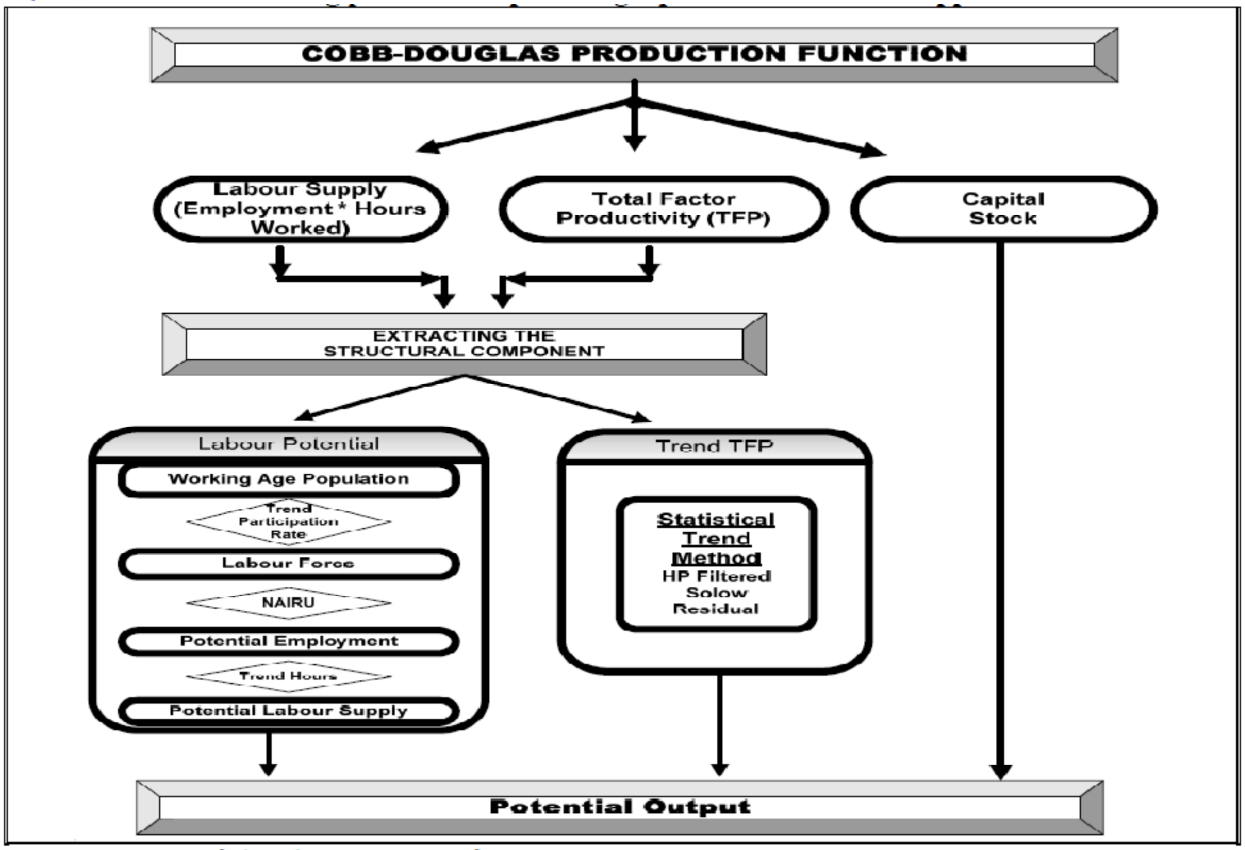
Source: ILO, Trends Econometric Models, April 2012.

III Global Economic Slowdown and its Impact on Employment in India

In a globalized economic scenario, no economy can manage to stay immune from the international economic developments. This is an inevitable consequence of globalization. The global economic slowdown which started in USA in 2008, impacted the economies of other countries, including India, as well. Sectors which were highly export oriented and labour intensive were expected to have more impact of this economic crisis. The textiles, (including apparels) metals, gems & jewellery, automobiles, transport, IT/BPO, leather and handloom/ power loom were considered to have been adversely impacted by the slowdown.

A thorough understanding of the impact of the crisis on potential output and its growth requires a detailed analysis of its individual components. In line with the conventional production function approach (Figure 1), recessions can have an impact on growth through three different channels: (i) capital accumulation; (ii) labour inputs; and (iii) Total Factor Productivity (TFP). As regards the labour supply, it can be further decomposed into the trend participation rate, the trend in average hours worked, the working-age population and the level of the structural unemployment rate, often called the NAIRU (i.e. the non-accelerating inflation rate of unemployment). TFP, on the other hand, measures the efficiency in the use of production factors and as it is essentially unobservable, it is often computed as a simple residual in the production function. It is important to underline that the effects of an economic recession on these components of potential output will likely differ over time. Especially, from a theoretical point of view, the relationship between downturns and *long-term* potential growth can be either positive or negative depending on the mechanism at the origin of the growth process. Therefore, the ensuing analysis will tackle in detail each of the components, paying appropriate attention to the timing of the impact.



Sources: Denis et al. (2006), Output gap working group.

Fig-1

III.I Trends in Indian Unemployment Scenario

Unemployment Rate in India decreased to 3.80 percent in 2011 from 9.40 percent in 2010. Unemployment Rate in India is reported by the India Ministry of Labour. Historically, from 1983 until 2011, India Unemployment Rate averaged 7.6 Percent reaching an all time high of 9.4 Percent in December of 2009 and a record low of 3.8 Percent in December of 2011.

In India, the unemployment rate measures the number of people actively looking for a job as a percentage of the labour force.

It is now well-settled that India is not totally decoupled from the global events. A need was felt to assess the impact of Global Financial Crisis of2007-08 on employment/unemployment in the country.

During the period July 2011- June 12, the global environment continued to be challenging as the global financial crisis was followed byte sovereign debt crisis in Euro zone. The Euro-zone crisis induced the European Central Bank to stipulate austerity measures for the countries which were on the verge of committing default. The austerity measures led to social unrest in some countries. The International Labour Organization has in its latest Report attributed the high rate of unemployment to the austerity measure – particularly those austerity measures which resulted in lowering production and productivity. Though the extent of openness of India to the external sector is relatively small– says when compared with the South East Asian Countries -

India could not have remained decoupled from the global event.

Table-1

Approach	Rural			Urban			Rural+ Urban		
	M	F	P	M	F	P	M	F	P
UPS	788	280	548	733	179	472	774	254	529
UPSS	794	339	579	737	191	480	779	300	554
CDS	760	279	533	719	175	463	749	252	515
CWS	794	344	582	735	195	481	779	305	556

Source: Report on Employment and Unemployment Survey 2011-12, Ministry of Labour, Labour Bureau

As may be seen from the above table, the highest LFPR of556 persons out of 1000 persons is estimated under the CWS approach followed by 554persons out of 1000 persons in case of UPSS and a minimum LFPR of 515 persons under the current daily status approach. Under the UPSS approach, which is having the same reference period as of UPS approach, the LFPR is higher in all the categories as compared to UP approach LFPR because of the reason that the subsidiary economic activities are additionally considered under this approach.

Yet another important parameter of the labour force is the unemployment rate. Based on the survey results, the unemployment rate at All India level is estimated at 38 persons out of 1000 persons under the usual principal status approach for the persons of age 15 years &above. In case of male category, the unemployment rate is estimated at 29 persons out of1000 persons whereas for the female category the unemployment rate is estimated at 69 persons out of 1000persons at All India level under the usual principal status approach.

A comparison of the unemployment rates estimated on the basis of different approaches, shows that UR is highest at 63 persons out of1000 persons at All India level under the current daily status approach, followed by 46 persons out of 1000 persons under the current weekly status approach, 38 persons out of 1000 person sunder the UPS approach and the lowest at 33 persons out of 1000persons under the UPSS approach.

Industry is a large employment intensive sector. Once, industrial sector is adversely affected, it has cascading effect on employment scenario. The services sector has been affected because hotel and tourism have significant dependency on high-value foreign tourists. Real estate, construction and transport are also adversely affected. Apart from GDP, the bigger concern is the employment implications. (N.K. Singh, 2008)

A survey conducted by the Ministry of Labour and Employment states that in the last quarter of 2008, five lakh workers lost jobs. The survey was based on a fairly large sample size across sectors such as Textiles, Automobiles, Gems & Jewellery, Metals, Mining, Construction, Transport and BPO/ IT sectors.

Employment in these sectors went down from 16.2 million during September 2008 to 15.7 million during December 2008(Report on Effect of Economic Slowdown on Employment in India (October – December 2008), Government of India, Ministry of Labour and Employment, Labour Bureau, Chandigarh.)

IV Conclusion and Suggestions-

Broadly, it is necessary to review existing laws and regulations with a view to making changes which would:

• encourage the corporate sector to move into more labour-intensive sectors

• facilitate the expansion of employment and output of the unorganized enterprises that operating

Changing labour laws is a sensitive issue and it is necessary to build a consensus. However, there are several changes short of hire and fire which should not present problems. These include:

• The locations and production activities that have a high potential for employment creation merit a differential treatment.

• Employment of women must be encouraged ensuring, inter alia, the special needs that they may have by virtue of change in working hours (night shifts, for example) or the requirements of the family, for example, child care.

• Contract labour in the domestic tariff area merits encouragement, provided commensurate steps are taken to increase social security

• Monitoring the implementation of labour laws, that is, the reporting system should be simplified and be permitted in an IT-friendly mode.

Fiscal Policies and Green Jobs as a Remedy

To redesign fiscal policy—and economic policies is a challenge. More generally—in order to strengthen its impact on employment and aid in its transition from a pure demand stimulus to one that promotes structural change for more sustainable economic growth. Thus far, stimulus packages in developed countries have mostly focused on income support measures, with tax-related measures accounting for more than half of the stimulus provided.

In contrast, in many developing countries, such as Argentina, China and the Republic of Korea, infrastructure investment has tended to make up the larger share of the stimulus and strengthened supply-side conditions. The optimal mix of supporting demand directly through taxes or income subsidies or indirectly through strengthening supply-side conditions, including by investing in infrastructure and new technologies, may vary across countries. In most contexts, however, direct Government spending tends to generate stronger employment effects.

A prudent policy would be to target public investments towards alleviating infrastructure bottlenecks that mitigate growth prospects, and to supplement this policy with fiscal efforts to broaden the tax base. One priority area would be to expand public investment in renewable clean energy as part of commitments to reduce greenhouse gas (GHG) emissions and in infrastructure that provides greater resilience to the effects of climate change. Such a reorientation of stimulus measures has the potential to provide significantly greater employment effects, as the renewable energy sector tends to be more labour-intensive than existing, non-renewable energy generation.

The redesigned fiscal strategy would also need to monitor closely the way in which income growth and productivity gains are shared in society.

Fiscal policies, in tandem with income and structural policies will need to be reoriented to foster job creation and green growth significantly higher. The employment deficit caused by the global crisis of 2008-2009, estimated at 64million jobs worldwide in 2011, would by and large dissipate by 2016, although, in the present scenario, would still fall slightly short of the global employment rate seen in 2007.

Government budget balances would quickly shift towards the upward slope of the J-curve

Current-account imbalances would be reduced gradually, in part because surplus countries are providing greater fiscal stimuli that would trigger stronger domestic private investment and consumption growth in those countries. With investments in energy efficiency and more sustainable (and greener) energy supplies, world energy prices would stabilize to lower levels over the medium run. Food prices would also stabilize as stronger demand is met with more rapidly increasing supply underpinned by increased investment in sustainable food production. Thus, external surpluses of major commodity exporting economies would also adjust gradually.

Even with such a perhaps slow employment recovery, this scenario underscores that providing more fiscal stimulus in the short run and avoiding premature fiscal austerity is a feasible way to effectively deal with the global jobs crisis while at the same time inducing a benign and more sustainable rebalancing of the global economy

(UNCTAD) suggest that rising inequality has implications for the effectiveness of macroeconomic policies and global rebalancing.16 Declining wage shares (resulting from higher unemployment and underemployment or lagging real wage growth) may undermine consumption growth and thereby contribute to national and international imbalances.

Labour market and income policies may thus need to supplement fiscal and monetary policies for a more balanced outcome.

In particular, allowing labour incomes to grow at the pace of productivity growth can help underpin a steady expansion of domestic demand and prevent income inequality from rising. In this way we can counter the menace of unemployment in the current situation as well.

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End Notes:

1. **Sub-prime** is a financial term that denotes financial institutions providing credit to borrowers deemed sub-prime (sometimes referred as under-banked). Sub-prime borrowers have a heightened perceived risk of default, those with a recorded bankruptcy or those with limited debt experience. Sub-prime lending means extending credit to people who would otherwise not have access to the credit market.
2. Securitisation is a structured finance process, which involves pooling and repackaging of cash flow producing financial assets into securities that are then sold to investors. Securitisation means turning something into a security. For example, taking the debt from a number of mortgages and combining them to make a financial product which can then be traded. Banks who buy these securities receive income when the original home-buyers make their mortgage payments.
3. Leverage means borrowing money to supplement existing funds for investment in such a way that the potential positive or negative outcome is magnified and/or enhanced. It generally refers to using borrowed funds, or debt, so as to attempt to increase the returns to equity.