CHAPTER III

NATURE AND CAUSES OF UNDEREMPLOYMENT
The present chapter attempts to analyse the nature and causes of underemployment. This chapter is divided into two sections. In the first section, we have discussed the nature of underemployment in developed and developing countries and the economic and non-economic factors responsible for the emergence of underemployment. In the second section the causes of underemployment in the State of Punjab have been discussed.

**Section 1**

One of the most difficult problems which the country faces has been to provide employment opportunities to all those who enter the labour force from year to year. The question of full-employment has engaged the attention of economic thinkers for quite some time. The maintenance of full-employment has come to be regarded as the main step that governments can take towards achieving the goals of raising the living standards and greater equality in income. The Indian experience of the relation between employment and development is vastly different from that of developed countries. The most significant feature of the difference is the negligible change that has taken place in the occupational structure of the country with agriculture and allied occupations.

The other distinguishing feature of the employment pattern is the vast proportion of the labour force that is self-employed. More than 60 per cent of India's labour force is thus technically

outside the category of wage earners and naturally, therefore, the concept of unemployment as used in the developed countries or what we may call 'open unemployment' does not apply to any of their number. The absence of 'open unemployment' does not mean, however, that those who do not come under this category are in a satisfactory economic position. In fact, the economic position of large numbers of them in rural areas is worse than that of the openly unemployed. In the case of agricultural workers, there is the problem of underemployment, disguised unemployment and even more, that of low productivity employment. The Indian problem is therefore one of both development and employment and not merely one of employment through development. Development means maximum increase of both current production and of the production potential through investment and application of science and technology.

Economic theory had always assumed that development was accompanied by employment. This assumption of full-employment was questioned by Keynes. He suggested that employment and development did not necessarily go together and special measures were necessary to deal with the problems of unemployment that come with development. The Keynesian theory of employment, however, was intended for industrialised countries with large unutilised capacity, falling marginal efficiency of capital, high rate of interest and excessive savings resulting in falling consumption demand. This in turn was linked up with the trade cycle. The Keynesian remedy
rested mainly on measures for increasing the purchasing power by public works programmes and along with it, consumer demand, while simultaneously lowering the rate of interest and taking other measures necessary for lowering the gap between the cost and efficiency of capital. This whole analysis, however, does not apply to the underdeveloped countries.

Historically, if we take the developed countries, there has been a steady increase in employment along with development, except for periodic unemployment associated with slumps and a more or less a constant level of unemployment of about 3 to 4 per cent of the labour force. The other characteristic of the history of employment in the case of the developed countries has been a radical change in the occupational structure and a vast increase in the proportion of wage-earners in the labour force. From a level of about 70 to 80 per cent of the labour in agriculture, the percentage of the labour force in agriculture in the industrialised countries had come down to 33 per cent in 1930, 17 per cent in 1960, and still further down to 6 per cent in 1978. Historically, therefore, the relation between development and employment has been characterised by four factors:

(a) An increase in employment broadly in line with the increase in labour force;

(b) An increase in the productivity of employment with a consequent increase in per capital earnings and the standard of living;

(c) A radical change in the occupational pattern, resulting in a significant decrease in the labour force employed in agriculture, along with a big rise in the labour force employed in industry and a still bigger rise in that employed in the service sector,

(d) A large increase in the proportion of wage-earners in the labour force along with a corresponding fall in the proportion of persons who worked for themselves or what are called the self-employed.

The pattern of relation between employment and development in the developed countries of today does not seem to be at work in the case of the developed countries. Development in the case of these countries is not always accompanied by an increase in employment. The explanation, probably can be sought in the fact that unemployment in these countries largely takes the form of underemployment, disguised unemployment and low productivity employment.

This relation between development and employment seems to present not only a different experience but also raises issues of a different character. Broadly speaking, it appears that the
developing countries required (a) more development and (b) more deliberate measures aimed at increasing the employment potential associated with development. Hence, in backward countries like India, the nature of the problem is altogether different. The peculiar characteristics of these economies pose certain distinct issues for framing programmes of full-employment. For the purpose of development, the employment problem in such an economy can be said to have two aspects, i.e. the need to make the maximum use of idle labour for the purpose of development and the employment forms only a corollary of development rather than a direct objective. 4

The major employment problem in most of the underdeveloped economies is essentially one of the underemployment rather than of unemployment. This primarily different form of unemployment, is ipso facto, a fundamental reason why its nature and causes should be studied. The most characteristic feature of unemployment and underemployment in such countries is that it fails to respond to fiscal policy measures designed to increase employment by stimulating effective demand. Use of conventional income generating techniques appears to create the problem of inflation and balance of payment difficulties long before full-employment is approached. In a country in

which capital is scarce and unemployment or underemployment is of considerable magnitude, the attempt to achieve full-employment by use of relatively capital-intensive investment would be more likely to lead to inflation, short of full-employment, than if more labour-intensive technique were used. This brings us to the examination of the Keynesian General Theory against the background of an underdeveloped country. According to Keynes, full-employment refers to the state in which involuntary unemployment does not exist at all. Men are involuntary unemployed, if, in the event of a small rise in the price of wage-goods relative to the money wage, both the aggregate supply of labour willing to work for the current money wage and the aggregate demand for it at that wage would be greater than the existing volume of employment. It follows from this definition that equality of the real wage to the marginal disutility of employment, corresponds to the absence of involuntary unemployment. Keynes would call this situation as full-employment, both 'frictional' **


* For the goods upon the price of which the utility of money wage depends.

** Frictional unemployment is that which is due to workers having the wrong skills or due to their being located in wrong places. Lerner says (Economics of Employment, p.18) that the frictional unemployment is the unemployment which exists, when there is full-employment. See also Mrs. Joan Robinson's view which are opposite to that of Keynes (Joan Robinson, Essays in the Theory of Employment, p.57.). However, frictional unemployment to be consistent or otherwise with full employment is not very relevant to the present analysis. It is sufficient to note that it is not due to underemployment.
and voluntary *** unemployment being consistent with full-employment, thus defined. However, this formulation is limited to the assumption of a given organisation, equipment, and technique, real wages and the voluntary volume of employment are uniquely correlated, so that, in general, an increase in employment can occur when there is a decline in real wages. Here, it must be noted that as against the assertion of classical economists of reducing the real wages through money wage cut, he advocates the same through increase in effective demand.

It follows from the above discussion that changes in employment depend solely on changes in aggregate effective demand. For maintaining full-employment, the volume of this demand must be raised to the required level consistent with full-employment. The basic theme of his theory can further be described in what follows.

We have shown that when effective demand is deficient there is underemployment of labour in the sense that there are men unemployed who would be willing to work at less than existing real wages. Consequently as effective demand increases, employment increases, though at real wage equal to, or less than the existing one, until a point comes, at which there is no surplus of labour available at the then existing real wage; i.e., no more men (or hours of labour) available unless money wages rise (from this point onwards) faster than prices. One important implication from Keynesian analysis is that once the

*** Voluntary unemployment is due to the refusal of inability of a unit of labour to accept the reward corresponding to the value of the product attributable to its marginal productivity. (See, General Theory, p.6).
full-employment level is reached, any further increase in effective demand will leave output, and, thus employment, unaffected. It will rather bring into operation the inflationary price-spiral. Coming to the problem of unemployment in underdeveloped countries, with low capital equipment, with agriculture as the prominent industry, the vast majority of earners falling in the category of self-employed and the poor state of technical knowledge, it generally recognised that the situation is entirely different. The problem here is one of underemployment rather than of unemployment. It is chronic rather than cyclical. Invisible underemployment which most economists regard as disguised unemployment is numerically so significant as to outstrip all other categories of the unemployment discussed so far. This type of unemployment refers to the workers who are constantly employed in the sense that their time is occupied but are working below the standard norms generally set in terms of productivity. Their contribution to output is negligible and a part of them can be released from agriculture without having any adverse effect on output.

Dr. V. K. R. V. Rao⁷ has also tried to apply the Keynesian Theory of Employment to underdeveloped countries with certain modifications in the theory. He considers disguised unemployment which we regard as one aspect of total underemployment, as perfectly consistent with the Keynesian concept of full-employment.

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Fig. 1
AVAILABLE LABOUR
INCLUDING INVISIBLE
UNDEREMPLOYMENT

Fig. 2
This is because the workers fall in the category of voluntary unemployment. He argues that a mere increase in effective demand can not solve the problem in these economies. Along with an increase in effective demand, a fundamental change in the volume and organisation of the factors of production to bring economic development is also required. A diagrammatic exposition of his thesis is given.

Figure 1 demonstrates that given the money supply and the rate of interest to be $M_0$ and $r_0$ respectively, the level of aggregate demand is $D$ and the volume of employment is $O\overline{N}_0$. Further increase in aggregate effective demand through increase in money supply to $D_1$ does not lead to any increase in employment beyond $O\overline{N}_0$, though there is still a large volume of underemployed and unemployed labour awaiting employment. The vertical axis $O\overline{T}$ measures the available labour including invisible underemployed. In this case, it is assumed that no fundamental changes are taking place in the factors of production.

In figure 2, it is assumed that appropriate changes are taking place in the volume and organisation of different factors of production so as to increase the level of employment opportunities. An increase in effective demand from $D$ to $D_1$ and from $D_1$ to $D_2$ leads to increase in employment from $O\overline{N}_0$ to $O\overline{N}_1$ and $O\overline{N}_1$ to $O\overline{N}_2$ respectively. This state of affairs shows levels of full-employment at different stages of economic development.
We are now in a position to consider the authenticity of Rao's attempt to reconcile the Keynesian concept of full-employment with the problem presented by under-developed countries, namely, that of disguised underemployment. According to N.A. Mujumdar, it remains unconvincing as the whole structure of his argument is built upon the assumption that disguised underemployment falls within the category of voluntary unemployment. In underdeveloped countries the workers, largely, the self-employed continue to work in the same occupation indefinitely. Besides, voluntary unemployment may be regarded as a temporary phenomenon which with the necessary adjustments in the economy, i.e., by employees agreeing to accept lower-wages, can be made to disappear. But in case of disguised underemployment it is not so. Further, it can also be noted that this type of underemployment does not fully resemble involuntary unemployment either. Muzumdar argues that they are not fully aware of their being underemployed and presumably get the same satisfaction as they would get by taking up employment elsewhere. This leads him to conclude that this category of unemployment is neither akin to voluntary unemployment nor to involuntary unemployment, but the magnitude of this phenomenon is not so insignificant that it could be neglected.

Dr. Rao\(^8\) admits in one of his earlier articles that the particular form which unemployment takes in underdeveloped countries, makes the economy, for Keynesian purposes, practically

analogous with one of full-employment. But in his diagrammatic exposition of the phenomenon in Fig. 1, he points out that after D, increase in effective demand will not lead to any increase in volume of employment, in the Keynesian sense, in which he has been interpreting the situation as the position of full-employment. It is, therefore, difficult to understand why Dr. Rao writes at the end of the explanation, "there is still a large volume of unemployed and underemployed labour awaiting employment." Hence, the inconsistency is clearly visible. It is quite evident that since invisible underemployment can not be included either in the category of voluntary unemployment or in the involuntary unemployment it becomes impossible to fit in this phenomenon with the Keynesian framework of exposition.

This brings us to the focal point of the nature of underemployment that underemployment as viewed by Keynes is not virtually underemployment in backward economies. Moti Lal Gupta gives a numerical illustration to make this point clear; on account of a decrease in effective demand, let us suppose one hundred workers are thrown out of job, from a total of say, one thousand, previously employed. This is the case of underemployment in Keynesian sense but it would be visible unemployed in these economies.

Further, unemployment or underemployment occurs in advanced countries, on account of inadequacy of effective demand. The situation may, therefore, be tackled by means

designed to stimulate effective demand. Unemployment or underemployment in underdeveloped countries, on the other hand, is of different nature. The problem in underdeveloped countries is mainly structured in character. It is due to the inadequate supplies of co-operating factors of production such as capital equipment and land. With a relatively inelastic supply of capital, any increase in effective demand would add to the forces of inflation rather than increasing employment opportunities.

Contrary to the situation in Western economies, it is the category of the self-employed which is found in a vast majority in underdeveloped economies. Almost all members of the family are associated in varying degrees with the production processes, although they produce little without even the conscious knowledge of their being underemployed.

Thus, underemployment is the most widespread form of inadequate utilization of existing human-resources and capacities in the less developed countries. A special feature of underemployment is that its existence becomes evident in sharing socio-economic circumstances when economical and social progress is actually taking place. The most common cause of underemployment is the imbalance between labour and other productive resources. While the labour supply is rising sharply, mainly due to rapid population growth, other productive resources remain scarce due to slow economic
development. Underemployment thus becomes a reflection of the state of underemployment on the plans of employment. The heaviest concentration of underemployed usually occurs in peasant farming, where the existing capital resources, organisation and techniques of production preclude effective utilisation of the relatively plentiful supply of family of labour. In the absence of alternative employment opportunities, underemployment usually reaches its peak during the seasonal slacks of the production cycle. In many developing countries, this imbalance in agriculture is rooted in or aggravated by institutional factors such as agrarian structures restricting the land available for cultivation by peasants or inheritance patterns breaking up land holdings. In some countries, lag in the development of infrastructure, such as transport or storage facilities, sets the limits to farm production.

Factors Helping the Emergence of Underemployment

It appears from various empirical studies in India and in other backward parts of the world, that underemployment in the sense of less than optimal utilisation of labour, specifically in the rural parts, is both considerable and chronic and thus needs to be solved. For effective policy prescription, it is rational to outline the broad factors helping the emergence and persistence of this phenomenon. The causes of this less than full utilisation can be grouped into two
categories: (i) non-economic factors and (ii) economic factors.

(1) Non-economic Factors

Among these factors, climate, customs, traditions, social relations and peculiar types of socio-legal structure are conspicuous. These traditional causes are, in fact, no less important than the economic factors.

Climate is hardly considered an important factor in modern literature on underemployment. In actual practice, climate holds an important place in economic and social life and thus it can be relied upon to explain the tendency to idleness in these countries. In agriculture, climatic extremes cause under-utilization of labour by making the sustained work impossible during some periods of the year. Combined with low levels of nutrition, stamina and health, climatic conditions are such that prolonged periods of rest are necessary. These conditions affect the length of the work, year and day as well as the intensity with which labour is applied.

The other non-economic factor is that the peasant's life routine of labour in India is organised by customs and traditions. The basic fatalism, inertia and the unquestioning acceptance of a low standard of living permeate the mentality of the bulk of population engaged in agriculture. As a result of this type of traditional bent, people tend to be idle for much of what would be a normal working day, month or year.
Still another non-economic factor helping the emergence of underemployment is the framework of a particular type of socio-legal structure.\textsuperscript{10} A good portion of the peasant's time is wasted in undertaking the journey from one plot to another and thus labour requirements are unnecessarily enhanced.

The consolidation of holdings that was carried out in the Punjab in the late forties has proved to be a corner stone in Rural Planning and development of agricultural economy. The consolidation of holdings scheme is an integral part of the 'Grow More Food Campaign' and has helped a good deal in solving the food problem of the country. It has also given an incentive to other departments to adopt their various departmental schemes in the rural areas which help in reshaping the villages on modern lines.

Now scattered work remains to be done and it is proposed to complete the consolidation operation in the State with the existing staff by 1990-91.\textsuperscript{*} The consolidation of holdings should take place after every 20-25 years so that scattered

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\textsuperscript{*} Report of the Consolidation of Holding Department, Punjab, Chandigarh.
plots can again be consolidated.

The non-economic factors listed above are, however, of little significance in view of the agility of the Punjab farms for exploiting work and opportunities in time. They have the required animal spirit to undertake even the risky line of employment and activities for their prosperity and improved economic positions. The Punjab farmers are very anxious to diversify their portfolios of investment, given the slightest opportunity.

2. Economic Factors

As regards the economic factors responsible for vast underemployment, increasing population pressure and capital deficiency are worth considering. Underemployment is due to a deficiency of the resources which are necessary to employ productively the available labour supply. It is usually associated with family employment. The resources of the family are too small to keep all working members of the family fully employed. The problem of structural underemployment arises from a poor capital and skill structure, a rigid pattern of occupation and uneconomic holdings. Thus owing to the shortage
of capital, weak infra-structure and low level of technology, skills and capacities, labourers, in the traditional sector, remain underutilised.

Besides, the persistence of underemployment is due to the increasing pressure of population. What actually happens is that as population increases, it tends to subsist on land in the absence of a corresponding increase in non-agricultural employment. The proportion of cultivated land per capita thus falls. The available employment which is admittedly inadequate is shared among too many claimants. The result is that those previously engaged as full time labourers are rendered underemployed. It must, however, be noted that employment implications of population growth are not most crucial, at least in the near future. This is because there is a fifteen-year lag between decline in the birth-rate and a decline in labour force entry rate, and thus the persons who are expected to enter the labour force in the next fifteen years have already been born.\textsuperscript{11} This, in fact, does not mean that population should be ignored even from long-run point of view.

Thus, from this far reaching analysis, we conclude that the bulk of the labour force in underdeveloped countries is entrenched within a climatic social and institutional matrix

that tends to perpetuate the existing level of underemployment among the farm workers and rising population, coupled with capital deficiency further adds to its degree and extent.

Causes of Underemployment in Punjab

The principal causes of underemployment in the districts under study were following:

The small size of cultivation holdings due to unequal distribution of land was the cause of underemployment. 119 of the total holdings of 320 were up to 5 acres. Further, an overwhelming majority of cultivators followed the traditional methods and had not taken to improved agricultural methods. The two together - small holdings and the old methods - were hardly likely to provide adequate employment. A singular lack of the spirit of adventure and immobility - geographical and occupational - were other important reasons.

It is obvious that there were wide land disparities among the families which gave rise to the problem of underemployment. Ludhiana district had lesser inequalities in land holdings as compared to Patiala, Bhatinda and Sangrur districts. Inequalities in land holdings were most pronounced in Patiala district and least apparent in Ludhiana district. These were largely due to the fact that marginal farmers and small farmers had a very small share of land as compared to landlords and medium farmers. The land holdings in Patiala
district, particularly, in Dakala and Kalyan villages as surveyed, was highest in the case of landlords. Another factor in the districts of Patiala and Bhatinda is that the irrigation facilities were not so good as to ensure a high level of productivity. Permanent workers were underemployed because they were working less than the normal working hours i.e. 8 hours a day. Family workers were underemployed in terms of income lost as their net return per day was less than the wages paid per permanent hired labourer. Seasonal nature of agricultural activity was also found the cause of underemployment in the four districts under study.

Another factor is that agricultural labourers and marginal farmers had less than 2.5 acres land to cultivate. They had to work at lower wages. Moreover, they were not in a position to leave the villages because of illiteracy. They will leave only if they get higher wages. The scattered nature of the plots was also the cause of underemployment. Farmers had to waste a lot of time in doing the supervision from one plot to another and thus labour requirements are unnecessarily enhanced.

One was plain and simple laziness and the other was excessive attachment to land. Even where there were small, fragmentary holdings, people clung to them like leeches irrespective of whether they were able to get even two square meals a day from such holdings or not. They obtained satisfaction
and comfort in the fact that they possessed land, and, therefore, need not bother about anything else.

Suggestions

We may now conclude that the excess pressure on land could be relieved only in two ways - either by bringing more land under cultivation or to divert a part of the work force to jobs not wedded to land. Intensification of agriculture was another way, but this was essentially a long-term process. This will only generate more income but will not provide sufficient work for all the available farm hands. For full-employment for them, we will have to resort to either bringing more land under cultivation or providing alternative avenues of employment. The crucial point, however, is that it will be necessary to first break the age-old inertia and immobility of the people and then to instil in them a spirit of adventure and education.

Underemployment can also be decreased by raising intensity of cropping and providing more irrigation facilities to those farmers whose land is unirrigated so that they can make the best use of their land and can increase their employment potential.

Another indispensable suggestion, in order to reduce the extent of underemployment in rural areas, is to reduce the disparities in land holdings. That is to say, the
redistribution of land in the lower classes will reduce inequalities in land and, therefore, the man-land ratio.

The state can also take steps to regulate the size of families by introducing family planning programmes which would lessen the man-land ratio on small farms, since on small farms, the number of dependents are comparatively higher than on large farms.

If these measures are implemented properly, the magnitude of underemployment may be considerably lessened.