THE EMPLOYMENT EFFECTS OF STABILISATION AND RELATED POLICY CHANGES IN INDIA: 1991-92 TO 1993-94

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Introduction

Stabilisation cannot be painless, especially when it is combined with a programme of structural adjustment. It would be unethical and contrary to all modern principles of welfare if the burden of such austerity and adjustment is allowed to fall on disadvantaged groups and social classes, poor people in general, who are least capable of bearing that burden. Unfortunately, it is precisely such groups which may end up bearing the burden, simply because they are not sufficiently powerful or organised to protect their interests. A democratic government must therefore actively intervene to protect these classes from the impact of stabilisation. Indeed, no such government may survive for very long unless it is clearly perceived as acting energetically to protect the poor during the period of austerity and adjustment.

In practical terms such protection would mean spreading a wider safety net, by way of an expanded public food distribution system, expanded employment programme and so forth, to offset the inevitable increase in unemployment and distress brought on by stabilisation. Admittedly, this should be combined with much better targeting and tightening to reduce leakages or the flow of food subsidies to undeserving recipients. The argument is sometimes advanced that the government cannot spare the necessary additional funds to finance an expanded safety net during a period of austerity. However, it has been shown that large sums of additional money could in fact be made available for

an expanded safety net during the stabilisation period. Further, this could be done without any additional burden on the exchequer, simply by economising on expenditures of dubious social or economic merit elsewhere[1].

As a starting point for designing such an expanded safety net programme, it is useful to have some quantitative estimate, however crude, of the likely adverse impact of stabilisation on unemployment and under-employment. Unfortunately, in India we do not have monthly, quarterly or even yearly employment - unemployment statistics which would be appropriate for preparing such an estimate. However, the National Sample Survey has been conducting excellent quinquennial employment - unemployment surveys. With the help of this material it is possible to make some projections of employment and unemployment.

This paper attempts to estimate the medium term impact of recent policy changes, particularly the stabilisation programme, on open unemployment and visible under-employment in the Indian economy with the help of NSS survey results, especially the results of the 43rd round survey conducted in 1987-88[2]. Our point of departure is a set of medium term projections which reflect the macro-economic implications of the Government's fiscal policy stance. The projected rates of growth of real output are combined with base year employment estimates and observed

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1. See, in this context, Amaresh Bagchi, Raja J. Chelliah and Sudipto Mundle, 'Budget 1991-92: A Recipe for Expenditure Switching', February 18 and 19, 1991, Economic Times. See also Sudipto Mundle and M. Govinda Rao, 'Volume and Composition of Government Subsidies in India' Economic and Political Weekly, May 4, 1991.

2. See Sarvekshana Special Number, Sept. 1990

employment elasticities, labour force participation rates, etc., to estimate the volume of extra unemployment which is likely to arise during the period 1991-92 to 1993-94. In part 2 of the paper the NSS data on employment - unemployment by 'Usual Status' classification is used to project extra open unemployment. In part 3 an attempt is made to construct a sectoral profile of the impact of stabilisation on employment. In part 4 the 'Daily Status' employment-unemployment cross classification of those employed in the usual status classification is used to capture the additional impact of stabilisation on visible under-employment[3]. Finally, in part 5, we conclude with some remarks on employment, poverty and the cost of an expanded safety net.

The fiscal deficit to GDP ratio, which the government has adopted as a key variable in it's fiscal policy, is actually not a particularly good measure of the fiscal policy stance since it is not a directly 'controlled' variable like revenue, expenditure, etc. It is only a derived variable, the same fiscal deficit ratio being consistent with widely varying combinations of revenue, expenditure, real output and the price level. In the context of an open economy, again, a given fiscal deficit would be

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3. The NSS surveys of employment and unemployment collect data according to three different concepts, i.e., usual status, current weekly status and current daily status. Usual status unemployment figures conceptually approximate open unemployment. Cross classification by weekly status or daily status of those employed according to Usual Status, as well as between weekly and daily status employment, yields measures of visible under-employment. For further details see Sarvekshana Special Number, September, 1990. See also Planning Commission: Employment: Past and Present for 1990s, New Delhi, May, 1990 and P. Visaria and B. S. Minhas, Evolving an Employment Policy for the 1990s: What do the Data Tell Us, Economic and Political Weekly, April 13, 1991.

consistent with varying levels of the external deficit or surplus, depending on the size of the domestic private savings - investment gap[4].

However, by setting the values of subsidiary policy variables, such as administered price increases, debt monetisation, etc., and assuming reasonable values for key exogenous variables such as the trade balance, it is possible to project the medium term macro-economic implications of alternative fiscal deficit targets with the help of a computable macro-economic model. By varying the exogenous conditions it is also possible to trace the macro effects under alternative scenarios, e.g., what would happen if the trade balance continues to deteriorate as in the past; what would happen if, instead, the new trade policy and industrial policy reforms effectively reduce the trade deficit during the next three years and so on. An exercise of this type has been recently completed at the National Institute of Public Finance and Policy, projecting the macro-economic profile upto 1993-94 under eighteen different scenarios[5].

The minimum and maximum rates of real output growth projected in that exercise, for scenarios corresponding to the stated fiscal policy stance of the government (Table 1), have been adopted to work out the net effect of the stabilisation package on employment and unemployment in two alternative cases. The main

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4. For a more detailed discussion of this issue see Mihir K. Rakshit - The Macro-economic Adjustment Programme : A Critique, Economic and Political Weekly, XXVI, 34, August 24, 1991.

5. National Institute of Public Finance and Policy, A Note on Central Government Expenditure, Paper presented to the Finance Minister, November, 1991, New Delhi.

difference between these two cases is that in the low growth variant the trade balance continues to deteriorate at about 37 per cent per annum, as in the past, and the exchange rate also continues to deteriorate at about 5 per cent per annum. In the high growth case the trade balance is assumed to improve at about 20 per cent per annum and the exchange rate is assumed to remain stable at the current rate.

TABLE 1

Alternative GDP Growth Projections

Year	Low Growth Variant	High Growth Variant
1991-92	2.8	3.9
1992-93	1.7	3.0
1993-94	3.8	5.7

Source: National Institute of Public Finance and Policy, (1991).

2. The Impact of Stabilisation on Open Unemployment

The basic approach which has been adopted for estimating unemployment is to project the total supply and demand for labour and measure the gap. In order to project labour supply, the 1987-88 NSS estimate of Usual Status labour force participation rate (LFPR), has been applied to the estimates of population for the years 1991-92 to 1993-94. The population estimates, in turn, are based on the 1991 Census results and the current population growth estimate of 2.11 per cent per annum.

The Usual Status LFPR appears to have been fairly stable over different rounds of NSS surveys, as pointed out by Visaria and Minhas (1991). It was 43.Ø7 per cent in 1977-78, 43.Ø5 per cent in 1983 and 42.16 per cent in 1987-88. However, 1987-88 was a drought year and a part of the population, especially among women and children, may have simply withdrawn from the labour force. On the other hand, it is also possible that the LFPR is actually declining, with a larger proportion of children of working age withdrawing from the labour force in order to go to school. For the main exercise an LFPR of 42.16 per cent

TABLE 2

Employment Elasticity (All Usual Status)

Periods	Compound Growth Rates Employment	Real GDP	Employment Elasticity Colmn. (3) = (1 ÷ 2)
	(1)	(2)	(3)
1972-73 to 1977-78	2.3	4.4	Ø.51
1977-78 to 1983-84	2.3	4.1	Ø.56
1983-84 to 1987-88	1.6	4.7	Ø.34

Sources: 1. Sarvekshana, 199Ø.

2. National Accounts Statistics, various issues.

has been applied to compute the supply of labour since 1987-88 (Table 3)[6]. However, alternative computations were also undertaken, assuming a usual status LFPR of 41.5 per cent, to check the sensitivity of unemployment estimates to the LFPR. These alternative calculations are reproduced in Appendix Table A.1.

In order to estimate the demand for labour, the employment elasticity of output was first calculated by comparing rates of growth of usual status employment and real output between different NSS survey years as shown in Table 2. As is evident, this elasticity has been declining, implying rising labour productivity over time. An elasticity of Ø.34, observed for the period 1983-84 to 1987-88, has been applied to the relevant rates of output growth to compute the corresponding rates of employment growth in different years. Starting with the NSS estimate of usual status employment of 322 million in 1987-88, the employment growth rates have been applied sequentially to calculate employment upto 1993-94. The difference between labour supply and independently estimated labour demand yields the estimate of open unemployment and the unemployment rate. These calculations are all reproduced in Table 3.

The base scenario in panel A is a projection of the employment - unemployment profile that would obtain in the absence of a stabilisation programme. It has been constructed on the basis of the observed rate of growth of output and trend extrapolation upto 1993-94. A sharp increase of 11 million persons

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6. For the years upto 1989-9Ø, the population estimates have been taken from Visaria-Minhas (1991) instead of the Expert Committee estimates reported in Sarvekshana. The former appeared to give a better prediction for actual population in 1991 as estimated by the Census.

TABLE 3

Employment and Unemployment Projections Under Alternative Scenarios (All Usual Status LFPR = 42.16 Per Cent)

(Millions)

Year	Labour Force	Employment	Unemployment	Unemployment Rate (%)
Panel A: Base Scenario				
1987-88	334	322	12	3.6
1988-89	341	333	8	2.4
1989-90	348	339	9	2.6
1990-91	356	345	11	3.1
1991-92	364	351	13	3.6
1992-93	372	358	14	3.8
1993-94	380	365	15	4.0

Year	Employment	Unemployment	Unemployment Rate (%)	Additional Unemployment[1]
Panel B: Stabilisation with High Growth				
1991-92	350	14	3.9	1
1992-93	354	18	4.8	4
1993-94	361	19	5.0	4

Year	Employment	Unemployment	Unemployment Rate	Additional Unemployment[1]
Panel C: Stabilisation with Low Growth				
1991-92	348	16	4.4	3
1992-93	350	22	5.9	8
1993-94	355	25	6.6	10

Note: 1 Additional as compared to the base scenario.

in total employment is evident in 1988-89 as a consequence of the exceptionally high rate of growth of output of 9.7 per cent recorded in that year. Total unemployment is, accordingly, observed to have declined by as much as 4 million persons in that year. However, open unemployment in the base scenario then rises monotonically to about 15 million persons in 1993-94, which amounts to an unemployment rate of about 4 per cent of the labour force in that year[7]. The steady increase in unemployment arises because labour demand has been growing at a somewhat slower rate than the rate of growth of labour supply.

The high growth and low growth variants presented in panels B and C of the same table show the alternative employment - unemployment profiles which can occur under the on-going stabilisation programme. As pointed out earlier, which of these

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7. In the document cited earlier the Planning Commission (1990) projected Usual Status unemployment for 1st April, 1990 by applying the unemployment rate observed for 1987-88 to the population estimate of 1990, arriving at a figure of 13.09 million as against our estimate of 8 to 9 million for that period. In our view the Planning Commission procedure is incorrect, since it implicitly assumes that labour demand will always adjust to maintain a constant ratio of unemployment to population. The figure is mentioned only to point out that our projections of unemployment are on the conservative side as compared to the Planning Commission view. Incidentally, we have noted discrepancies between some of the numbers which we have either taken or estimated from the NSS Survey Report, Sarvekshana (1990), and that in the Planning Commission document. For example, the Usual Principal Status unemployment for 1987-88 is shown as 12.43 million in the document (Planning Commission, 1990, p. 13). The corresponding figure in the NSS report works out to 11.7 million (Sarvekshana, 1990, p. 112). We are unable to locate the source of such discrepancies. Our hunch is that the Planning Commission study may be based on an earlier draft of the NSS report, which may have been checked and revised for the Sarvekshana publication.

variants will approximate the actual outcome depends a great deal on what happens on the foreign trade front. The simulation exercises cited earlier indicate that domestic output and employment growth are quite sensitive to changes in the trade balance. A comparison of the unemployment levels in these two variants with the unemployment projections in the base scenario give us a measure of the extra open unemployment that can arise as a consequence of the current austerity programme.

If the policies being pursued for switching expenditure from imports to domestic production are successful, along with the structural adjustment policies, in steadily decreasing the current account deficit, the economy might approximate the high growth scenario (Table 3 Panel B). Even under these favourable conditions, the stabilisation programme will raise the unemployment rate from less than 4 per cent in the current year to about 5 per cent next year[8]. This implies extra unemployment of about 4 million persons next year and the year after as a net consequence of the stabilisation programme[9].

In the low growth scenario, which could appear if the trade balance continues to deteriorate, conditions would turn out to be much worse. The unemployment rate would rise to around 6 per cent next year and climb towards 7 per cent in 1993-94. In

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8. Unemployment rate is the ratio of All Usual Status Unemployed Persons to the total labour force.

9. We do not attempt to project the employment effect beyond 1993-94 as it may be unrealistic to do so on the basis parameters like the employment elasticity and LFPR which may be changing over time.

absolute terms the additional unemployment created on account of stabilisation would amount to about 10 million persons out of a total unemployed pool of around 25 million persons.

These numbers are quite disturbing. They are, of course, based on the assumption that the LFPR remains the same as that observed in 1987-88, i.e., 42.16 per cent. However, an alternative set of calculations has also been attempted to see how far the picture would be altered if the LFPR were to decline to about 41.5 per cent (Appendix Table A.1). The extra unemployment attributable to stabilisation obviously remains uneffected, since the LFPR does not effect the total number employed with or without stabilisation. However, with labour supply reduced, the total number unemployed would vary between 12 to 18 million persons, depending on whether the actual outcome approximate the high growth variant or the low growth variant. Even these reduced unemployment figures clearly indicate that the level of unemployment will be really quite high as a consequence of the stabilisation programme.

3. The Impact on Informal Non-Agricultural Sector Employment

The foregoing discussion has shown that the adverse impact of the stabilisation programme on overall employment will be quite severe, especially if the foreign trade situation continues to deteriorate. However, it is also arguable that this adverse impact will not be evenly dispersed across all sectors of the economy, the reduction in employment below trend being concentrated in some activities. In this case, the distress arising from extra unemployment would be concentrated in some particular segments of the labour force.

In the short run agricultural production is largely determined by supply side conditions. Demand changes are largely absorbed through changes in government buffer stocks and through cropping pattern changes in the medium term. Prices of the major products, e.g., foodgrains, oilseeds, cotton, etc., are also maintained through government price support operations. As such, reduced domestic absorption, consequent upon stabilisation, will have little effect an output and employment in the agricultural sector, so long as government operations in foodgrains, the public distribution system, food subsidies and buffer stocks are maintained.

In the organised sector, including both public sector and private sector, employment is again likely to be relatively insensitive to changes in the level of aggregate demand. Though production may fall, or growth slow down, as a consequence of demand compression, it is unlikely that jobs would be easily lost. This is partly because of legal protection for organised sector jobs and partly because the workmen and salariat in the organised sector are themselves well organised to protect their interests.

Much of the reduction in employment attributable to stabilisation is, therefore, likely to occur in the unorganised segment of non-agricultural economic activities, which we may label the Informal Non-Agricultural Sector. Based on this hypothesis, we have tried to project the likely profile of employment by sectors under the three scenarios described earlier, i.e., the Base Scenario, Stabilisation: High Growth Variant and Stabilisation : Low Growth Variant.

The procedure adopted is the following. Organised sector employment data are easily available, e.g., in the annual Economic Survey published by the government. These have been extrapolated at the observed trend growth rate of 1.5 per cent upto 1993-94. Employment in agriculture, as estimated by the NSS quinquennial surveys, has been corrected for the small volume of employment in organised agriculture such as plantations, etc., to avoid double counting. These employment estimates have then been projected upto 1993-94.

The compound growth rates of employment in unorganised agriculture, estimated in this manner, for different sub-periods is shown in Table 4. It will be evident that for all sub-periods ending in 1987-88 the employment growth rate is unusually low. This is evidently attributable to the drought of 1987-88. On the other hand, the employment growth rate observed in the seventies may be too high. Therefore a middle rate of 1.2 per cent, observed for the entire period 1972-73 to 1987-88, has been applied to extrapolate the unorganised agricultural employment upto 1993-94.

TABLE 4

Growth of Usual Status Employment in Unorganised Agriculture

Years	Growth Rate	Years	Growth Rate
1972-73 to 1977-78	1.9	1972-73 to 1987-88	1.2
1977-78 to 1983-84	1.3	1977-78 to 1987-88	Ø.8
		1983-84 to 1987-88	Ø.1

Finally, by deducting the estimated employment in organised sector and unorganised agriculture, which are invariant across scenarios by assumption, from total employment, as estimated for each scenario (Table 3), the employment in informal non-agriculture has been derived as a residual. These estimates are all reproduced in Table 5. By comparing with the base scenario, it is now possible to gauge the absolute and relative reduction in employment in the informal, non-agricultural sector as a consequence of stabilisation[10].

The base scenario shows that under normal circumstances employment in this sector would have been around 111 million persons in 1992-93, rising further to around 115 million by 1993-94. With stabilisation employment would be less about 4 million persons or approximately 4 per cent in the high growth case. In the low growth case, where the trade balance continues to deteriorate, employment would be lower by as much as 8 to 10 million persons per year during the next two years, implying a reduction of around 8 per cent to 9 per cent in total employment in the sector as compared to trend.

The implication of these calculations, admittedly hypothetical, is that there could be a fairly sharp increase in the level of unemployment among marginal urban communities, surviving on low paid informal sector jobs, during the stabilisation period, leading in turn to greater incidence of

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10. By assumption the absolute reduction of employment in this sector will be the same as Additional Unemployment shown in the extra employment - unemployment projections (Table 3).

TABLE 5

Employment Projections Under Alternative Scenarios

(Millions)

Year	Panel A: Employment in Different Sectors: Base Scenario			
	Total	Organised Sector	Unorganised Agriculture	Informal Non-Agriculture (4) = (1- 2- 3)
	(1)	(2)	(3)	(4)
1987-88	322	26	206	90
1988-89	333	26	208	99
1989-90	339	27	210	102
1990-91	345	27	213	105
1991-92	351	28	216	107
1992-93	358	28	219	111
1993-94	365	28	222	115

Year	Panel B: Employment in Different Sectors: Stabilisation With High Growth				
	Total	Organised Sector	Unorganised Agriculture	Informal Non-Agriculture	Changes in Informal Non-Agricultural Employment[1]
1991-92	350	28	216	106	-1 (-0.9%)
1992-93	354	28	219	107	-4 (-3.7%)
1993-94	361	28	222	111	-4 (-3.6%)

Year	Panel C: Employment in Different Sectors: Stabilisation With Low Growth				
	Total	Organised Sector	Unorganised Agriculture	Informal Non-Agriculture	Changes in Informal Non-Agricultural Employment[1]
1991-92	348	28	216	104	-3 (-2.9%)
1992-93	350	28	219	103	-8 (-7.8%)
1993-94	355	28	222	105	-10 (-9.5%)

Note: 1 Change as compared to base scenario. Figures in parentheses give percentage of total employment in the informal, non-agricultural sector.

poverty, heightened distress and social tensions in urban areas. Possibly, some reverse migration might also occur from the cities and towns to rural areas, with a fall in the probability of employment and corresponding reduction of the expected income.

4. The Impact on Visible Under-Employment

The discussion so far has been confined to the effects of stabilisation an open unemployment. However, it is well known that in agrarian societies like India unemployment is often disguised or takes the form of under-employment. It is very difficult to catch under-employment in the form of abnormally low productivity, which arises when a little work is shared out among too many persons. Every one appears to busy or 'employed', but each one is in effect performing little productive work and also earning very little. However, there is another form of under-employment which is visible and more amenable to measurement.

Thus among those reported as 'employed' under the Usual Status classification in the NSS surveys, some could be unemployed for many days during the reference year. Similarly, among those classified as employed under the priority rule in the weekly status classification, some may have worked only for some time during the week. They may have been reported as either 'not working but seeking work' or 'not seeking work' for some days of the week by the daily status classification. By cross classifying those 'employed' under Usual Status by their weekly or daily status and those employed under weekly status by their daily status it is possible to get some indicators of the relative scale of visible under-employment.

The total number of persons employed by usual status in each sex-residence category and the corresponding proportions unemployed by daily status classification, as estimated from the NSS survey results for 1983 and 1987-88 are shown in Table 6. The

TABLE 6

Unemployment Proportions by Daily Status Classification Out of Persons Employed by Usual Status Classification in Each Sex-Residence Category

(Millions)

Year	Employed Persons by Usual Status				Total Visible Under-Employed
	Rural		Urban		
	Males	Females	Males	Females	
	(1)	(2)	(3)	(4)	(5)
1983	152.7 (5.7)	90.4 (5.0)	47.3 (4.1)	12.3 (3.8)	15.6
1987-88	160.5 (2.7)	92.0 (2.6)	55.0 (3.7)	14.7 (3.7)	9.3

Source: Sarvekshana, Special Number, September, 1990, Statements 22 and 49.

Notes:
1. Figures in parentheses give the percentage share of unemployed by 'daily status' classification in the total number employed by usual status classification in each sex-residence category.
2. Total number of under-employed in column 5 has been calculated as the sum of usual status employed persons in each category who are unemployed by daily status classification, i.e., the number in each sex-residence cell multiplied by the percentage given in parentheses.

number of visibly under-employed persons in 1983 and 1987-88, calculated from these sex-residence category totals and proportions is also shown in the same table. Notice that the total number of visibly under-employed persons came down from nearly 16 million persons in 1983 to about 9 million in 1987-88. This is despite the fact that 1987-88 was a drought year. Clearly, the incidence of visible under-employment is declining over time while open unemployment is increasing, a phenomenon noted in the Planning Commission document cited earlier (Planning Commission, 199Ø) as well as by Visaria-Minhas (1991). How or why this is happening is a question which needs to be further researched by labour market specialists.

For present purposes, the rate of change of visible under-employment between 1983 and 1987-88 has been used to derive the elasticity of visible under-employment with respect to output growth, which works out to (-)2.6. Applying this elasticity to the projected rates of output growth yields the projected level of visible under-employment upto 1993-94 under alternative scenarios. As before, comparing either variant of conditions under stabilisation with the base scenario gives us the net effect of stabilisation on visible under-employment. These results are all shown in Table 7.

In the base scenario visible under-employment, which should have come down from over 9 million in 1987-88 to less than 5 million this year, should further decline to only about 3 million by 1993-94. If current trends persist, it is quite likely that the phenomenon of visible under-employment would virtually disappear by the end of this decade. In the high growth stabilisation case it declines to only 3.7 million. In the low growth stabilisation case visible under-employment remains above 4

million. Thus, the net effect of stabilisation works out to about half a million extra under-employed persons per annum in the high growth stabilisation case and a little under one million persons per annum in the low growth stabilisation case.

TABLE 7

Under-Employment Projections Under Different Scenarios

(Millions)

Year	Panel A: Base Scenario		
	Visible Under-Employment	Year	Visible Under-Employment
1987-88	9.3	1991-92	4.5
1988-89	6.9	1992-93	3.8
1989-90	6.0	1993-94	3.3
1990-91	5.2		

Year	Panel B: Stabilisation With High Growth	
	Visible Under-Employment	Additional Visible Under-Employment[1]
1991-92	4.7	0.2
1992-93	4.3	0.5
1993-94	3.7	0.4

Year	Panel C: Stabilisation With Low Growth	
	Visible Under-Employment	Additional Visible Under-Employment[1]
1991-92	4.9	0.4
1992-93	4.6	0.8
1993-94	4.2	0.9

Note: 1. Additional visible under-employment as compared to base scenario.

5. Poverty, Unemployment and the Cost of an Expanded Safety Net

The foregoing analysis has led us to the conclusion that though visible under-employment as a phenomenon has been declining quite rapidly, the stabilisation programme could still result in extra under-employment of about one half of one million to one million persons per annum during the next two years. However, the impact on visible under-employment is quite small as compared to the impact on open unemployment. The estimates reported in Table 3 earlier show that, even under favourable conditions, the stabilisation programme would result in about 4 million additional unemployed persons each year during the next couple of years. Under less favourable condition, the extra unemployment could go up to as much as 8 to 10 million persons. This would take total unemployment up to about 20 to 25 million persons by 1993-94, with the unemployment rate rising to around 5 per cent to 7 per cent of the total labour force. How would this effect the incidence of poverty?

It is not possible to answer this question in quantitative terms for several reasons. As pointed out by Desai (1990), Visaria-Minhas (1991) and others, in the absence of any dole or social security the poor in India cannot afford to remain unemployed for long, no matter what pittance they are paid for their work. As such they may be employed and still remain below the poverty line. In fact, if poverty incidence increases for other reasons, such as high inflation or drought, this would lower the reservation price of labour and might actually reduce the unemployment rate! Furthermore, apart from the level of unemployment, which is itself linked to production and labour supply, there are other factors which have a major impact on poverty incidence, e.g., productivity, the rate of inflation and

so on. Since these different causal factors operate simultaneously, it is not possible to isolate the impact of only one factor like unemployment without either a properly specified, computable simultaneous equation model or enough observations to allow the estimation of coefficients of independent variables in a multiple regression model.

However, even without such quantification, it is quite obvious that, ceteris paribus, an increase in unemployment - under-employment by 5 to 10 million persons would lead to a very substantial increase in the incidence of poverty among the working population[11]. We have also seen earlier that much of the loss in potential jobs will be concentrated in the area of informal non-agricultural activities, leading to intensified distress among communities already marginalised in the cities and towns of India. The situation would get much worse if the inflation rate, currently running at around 14 per cent, is not brought down in the next few months.

Without counter-measures this could lead to increased social tension on a scale which would threaten not merely economic stability but the entire socio-political fabric, which is already under considerable pressure on account of ethnic and religious tensions. This takes us back to a proposition introduced at the very beginning of the paper. Namely, that a democratically elected government cannot afford to ignore these implications and proceed

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11. We are obviously not concerned, here, with a case of diminishing poverty incidence itself leading to a rising reservation price of labour and hence higher unemployment.

with the stabilisation programme without counter-measures to protect the poor from bearing the burden of austerity and adjustment.

Apart from a better targeted but adequate public distribution system for foodgrains, the other basic counter-measure is a substantially expanded relief employment programme. There is a great deal of cynicism, probably even in some quarters of the government, about the value of such safety net devices. Frequent references are made to the problem of leakages, etc. The government would therefore do well to examine not only its internal, highly positive, evaluation reports about these programmes but also independent professional analysis of the impact of government relief operations during the 1987-88 drought.

While rejecting the Planning Commission's overly optimistic calculations of declining poverty incidence; Minhas, Jain and Tendulkar have shown on the basis of very careful estimates that poverty incidence in the drought year 1987-88 was lower in both rural and urban India as compared to the previous observation, taken in 1983[12]. Though a severe drought year, 1987-88 also happened to be a year during which the government released about 20 million tonnes of foodgrain stocks to keep food prices in check and mounted a massive relief employment programme, especially in the worst effected States of Gujarat and Rajasthan.[13] Analysing, the impact on unemployment in that year,

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12. See B. S. Minhas, L. R. Jain and S. D. Tendulkar - Declining Incidence of Poverty in the 1980s: Evidence Versus Arte Facts, Economic and Political Weekly, July 6-13, 1991.

13. For on account of how the government conceived, planned and implemented drought relief measures in 1987-88 see Economic Survey, 1988, Government of India, Ministry of Finance.

Visaria and Minhas (1991) have observed:

> "The supplementary work opportunities created through scarcity relief works have more than made up for the adverse impact of even a severe drought of 1987-88".

This was despite all the leakages, inefficiencies and everything else that is inadequate about the administration of these programmes.

What would be the additional cost of an expanded safety net and how would the government finance it in a period of fiscal compression? Since the extra unemployment would vary between 4 to 8 million persons in 1992-93 and about 4 to 10 million persons in 1993-94, the expansion of the safety net can be costed for, say, 6 million persons in 1992-93 and 8 million persons in 1993-94. At Rs. 10 total compensation (cash plus food) per head per day, the daily wage bill for 6 million person days in 1992-93 would be Rs. 6 crore. If work is made available for 270 days per year, the additional wage bill for an expanded 1992-93 employment programme would work out to Rs. 1,620 crore[14]. The guidelines for special employment programmes specify that the wage bill should account for at least half of the total cost of the programme. Therefore, the total programme cost for offering relief employment to 6 million persons (1,620 million person days) could add up to at most Rs. 3,240 crore. In 1993-94, if the programme is expanded to employ 8 million persons (2160 million

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14. Notice that, all along, the discussion is about additionality. Additional employment and additional cost over and above the existing employment programmes.

person days), the total cost of the programme could go up to Rs. 4,320 crore. The above computations are based on an assumed wage rate (costs plus kind) of Rs. 10 per head per day. However, as Rath has pointed out, a recent judgement of the Supreme Court has raised some questions about the very feasability of these schemes[15]. There is some confusion in the minds of the Central and State Governments about the logic of these schemes. They are not clear as to whether the schemes should be viewed essentially as a dole programme, with physical labour being used as a filter to keep out undeserving elements as in the famine relief schemes, asset creation being a by-product, or whether productive work for asset creation is the main objective and employment generation a by-product. Therefore, it is possible that the governments' case could not be suitably argued in the Supreme Court.

However that may be, as of now the costing of the employment programmes has to be done at state specific statutory minimum wages. According to Sundaram's calculations, this would work out to a national average daily wage rate of about Rs. 16 per head[16]. Therefore, the programme cost per head per day at the specified norm would be Rs. 32. For 6 million extra daily employment in 1992-93 that works out to Rs. 19.2 crore per day. At that rate, it may be difficult to provide employment for 270 days. But if employment is offered every alternate day, i.e., 182 days per annum, to each of 6 million extra unemployed, the annual cost in 1992-93 would work out to about Rs. 3,500 crore. For 8 million

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15. See contribution by N. Rath in 'Search for Employment Oriented Growth Strategy : A Discussion', Economic and Political Weekly, May 26, 1990.

16. K. Sundaram - Right to Work : Can it Work? Indian Express, 3rd May, 1990.

persons in 1993-94 the cost would go up to about Rs. 4,700 crore. For an unemployed family with husband and wife on the programme, this would mean a monthly income of Rs. 500 approximately, perhaps just enough to survive in a rural setting.

How would the government finance such an expansion of the safety net if it's cost adds up to around Rs. 4,000 crore? Bagchi, Chelliah and Mundle (1991) have shown that even in the budget for the current year, 1991-92, an additional sum of Rs. 3,000 crore could have been spent to expand the employment programmes, within the fiscal deficit target of 6.5 per cent of GDP set for the current year, through feasable economies elsewhere in the budget, better recovery of user costs, etc. For the next year, 1992-93, the National Institute of Public Finance and Policy, in its note recently submitted to the Finance Minister, has suggested possible expenditure compression measures, excluding defence, which could save Rs. 6,000 to Rs. 8,000 crore (NIPFP, 1991). Allowing for additional economies in defence expenditure, it is evident that just half of the money saved through compression of expenditure elsewhere would be enough to cover the expansion of the safety net. The balance could be absorbed in containing aggregate expenditure, in order to meet the exceptionally stringent fiscal deficit targets set for the next two years.

APPENDIX

TABLE A.1

Employment and Unemployment Projections Under Alternative Scenarios (Usual Status; LFPR = 41.5 Per cent)

(Millions)

Year	Labour Force	Employment	Unemployment	Unemployment Rate (%)
	Panel A: Base Scenario			
1987-88	334	322	12	3.6
1988-89	341	333	8	2.4
1989-90	348	339	9	2.6
1990-91	350	345	5	1.4
1991-92	357	351	6	1.7
1992-93	365	358	7	1.9
1993-94	373	365	8	2.1

Year	Employment	Unemployment	Unemployment Rate (%)	Additional Unemployment[1]
	Panel B: Stabilisation with High Growth			
1991-92	350	7	2.0	1
1992-93	354	11	3.0	4
1993-94	361	12	3.2	4

Year	Employment	Unemployment	Unemployment Rate	Additional Unemployment[1]
	Panel C: Stabilisation with Low Growth			
1991-92	348	9	2.5	3
1992-93	350	15	4.1	8
1993-94	355	18	4.8	10

Note: 1 Additional as compared to the base scenario.

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