

# **Unemployment and Food Security in India: A Macro-Theoretic Study**

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## **Abstract**

### **1. Introduction**

The objective this Ph.D. thesis is to examine the issues of unemployment and food security in India. For this purpose it develops models incorporating the relevant salient features of the Indian economy. These models belong to the tradition set by Keynes (1936), Kalecki(1954) and structuralist writers such as Rakshit (1982), Taylor (1983), Bose (1989) et al. The thesis has three core chapters: Chapters 2, 3 and 4. Chapter 2 addresses the problem of unemployment in India, while the other two chapters focus on the issue of food security in India. We summarize the main themes of these three chapters below.

### **2. Chapter 2: High Growth and Stagnant Employment in India**

The organized sector, which consists principally of the corporate sector, the large non-agricultural private enterprises and the public sector, has grown at a high rate in India in the post-reform period, but employment in the organized sector has been completely stagnant. Data given in Chapter 2 show that GDP grew at a high rate of around 6 percent per annum during 1994-5 – 2014-15, while the share of the organized sector in GDP increased from 36.8 percent in 1993-94 to 43.3 percent in 2003-04 and further to 45.1 percent in 2010-11. There are no reasons to believe that the trend has been reversed since 2010-11. Thus, the organized sector has grown at a higher rate than GDP. We also find that only 6 percent of the work force was employed in the organized sector in 2004-05, while the work force and the labour force grew at an average annual rate of around 2 percent during 1994 – 2004-05. There is no reason to believe that the scenario has changed much since then. Thus, the share of the work force employed in the organized sector has dwindled continuously, whereas the share of the organized sector in GDP has steadily increased. Given the steady high growth rate of output of the organized sector and the complete stagnation in its level of employment, the unit labour requirement has gone down steadily and rapidly. Obviously, this has been brought about by labour saving technological and managerial changes taking place in the organized sector. As should be the purpose of labour saving technological and managerial changes, the shares of the workers of the organized sector in its output must have gone down along with the unit labour requirement of production even though money wage rate may have increased. A prima facie evidence of this phenomenon is given by the data provided in Chapter 2, which show that the share of wage income in the net value added in the organized manufacturing sector has steadily declined during the period under consideration. This phenomenon of a secular decline in the share of workers' income in the GVA of the organized manufacturing sector in India is quite well documented in the literature (see, for example, Abraham and Sasikumar (2017) and Kapoor

(2016)). The objective of this chapter is to examine the implications of the decline in the shares of workers in the organized sector's output on the output levels or the growth rates of the organized and the unorganized sectors using a macro model suitable for India. The existing literature on Indian economy, however, does not address this issue. Hence, the present study fills up an important gap in the literature. It also seeks to suggest policies that may generate employment in both the sectors. ILO(2009) has made an attempt at suggesting a strategy for generating employment in India. It has recommended massive investments in sectors, which are naturally employment intensive. However, it has not derived its strategy from a macro-theoretic model. Hence, it has left the issue of the problem of financing of the required massive investments unexplored. Nor has it examined the issue of the possible conflict between the goal of employment generation and that of providing the masses with the basic necessities of life in adequate quantities at affordable prices. We have shown that, if the government invests in infrastructure in the unorganized sector and finances it by taxing capitalists' income, it will raise employment significantly and heap considerable benefits on the poor. However, if the government, as it normally does, finances the increase in its investment in the unorganized sector by raising indirect tax rates, it is highly likely to lower employment and output levels in both the sectors.

### **3. Chapter 3: Food Security in India under Free Market Conditions: A Macro-Theoretic Study**

Food security is an important aspect of economic development in all the countries of the world. The ranking of India in Global Hunger Index (2019) is 102 among 117 countries. This underscores very strongly the extremely poor performance of Indian economy relative to the others economies of the world in combating hunger. The data on per capita net availability of food grains in India also give empirical support to this. Data provided in Chapter 3 show that per capita net availability of food grains (per annum) in India has declined from 186.2 kg per year to 180.5 kg per year from 1991 to 2019. It reveals a food crisis in Indian economy. The National Crime Records Bureau (NCRB) report for 2016 (NCRB(2016)) and the Government of India(2016) report underscore the country's grim agrarian crisis by revealing a high number of suicides of Indian farmers. Adoption of the New Economic Policy (NEP) in 1991 and constant monitoring by WTO since then has eroded the autonomy of the government in pursuing development policies regarding agriculture starting from input subsidy to the procurement program. This chapter seeks to show how free play of market forces endangers food security of most of the Indians.

The existing literature points to four important features of Indian agriculture: (i) preponderance of small and marginal farmers who own and cultivate 85% of total agricultural land holdings and account for 40 percent of aggregate marketable surplus (NABARD(2020)), (ii) low prices received by farmers (Ahangar(2013) , Abishek (2016), Mitra&Mookherjee et al. (2018)), (iii) inadequate supply of formal credit ((Mohan (2006) ,Golait (2007), Government of India(2014)), (iv) decline in public investment in agriculture in the post-reform period (Mishra (2006), Godara et. al.(2014)). Along with this, some studies have raised the issue of indebtedness of the farmers and farmers' suicide (Mishra (2006), Jeromi (2007), Sadanandan(2014)) in the context of Indian agriculture.

There is, however, no theoretical study that incorporates all these major features of Indian agriculture and examines how India is likely to perform in the sphere of food security under free market conditions. The objective of Chapter 3 is precisely this.

The analysis of this chapter shows that the food security of the common man in India is gravely threatened under free market conditions. In a free market, farmers' bargaining strength is nil vis-a-vis the traders. Hence, the farmers will get for their produce the lowest possible price. In a free market, financial institutions are profit driven. As most of the arable land in India is cultivated by the small and marginal farmers who have very little to offer by way of collateral, they are likely to get a very small amount of loan at very high interest rates. Farmers also have to buy industrial intermediate inputs from the corporate sector. As the corporate sector has tremendous monopoly power, the prices of industrial intermediate inputs are likely to be fairly high. For all these reasons quite a large part of the land and infrastructure available to the farmers may remain unutilized gravely threatening the food security of the ordinary people. This study also shows that a onetime loan waiver for the farmers increases food output and improves farmers' well-being only temporarily. It does not produce a permanent impact. Finally, the study yields the result that a onetime adverse natural shock may depress food output and farmers' well-being below their respective normal levels for quite some time. This may force many farmers to starve and commit suicide.

#### **4. Chapter 4: Government Intervention and Food Security: Need and Nature**

In Chapter 3, we examined the issue of food security under free market conditions. We pointed to several reasons why free market conditions will gravely threaten India's food security causing immense misery to the farmers and the poor. In this chapter, we point to two more factors that adversely affect food security in a free market. The factors we identify here are first, the uncertainty associated with production and price of food and second, the behavior of the corporate sector, which, because of its monopoly power, finds it optimal to regularly hike prices of industrial intermediate inputs used in food production. The studies undertaken in this chapter and in the previous one show that free market forces will lead to large scale underutilization of the available land and infrastructure in the food sector. These studies point to the urgency of appropriate government's policies for maximizing food output through full utilization of the land and infrastructure of the food sector. This chapter seeks to derive these policies. It also seeks to derive the policy that the government should adopt to distribute the surplus food output of the food sector among the non-farmer people equitably. It, then, examines the implications of the recently passed three Farm Laws and concludes that the objective of these laws is to hand over Indian agriculture to the corporate sector. It, then, proceeds to examine the implications of corporatization of Indian agriculture. The importance of the issues considered here can hardly be overemphasized. The endeavour is worthwhile because the issues considered here are examined in a rigorous theoretical framework, which we hope capture all the relevant salient features of India. Such a study, to the best of our knowledge, does not exist in the literature.

This chapter argues that the three recently passed farm laws (which have been withdrawn later following very strong resistance to these laws put up by the farmers) are highly likely to make all the small and medium farmers lose all their land to the capitalists. They will become unemployed landless labourers. The capitalists in all likelihood will utilize only a small part of this land for food production using immensely capital intensive methods of production. Hence, most of the ordinary Indians are very much likely to face starvation and deprivation to the extreme.

## **5. Conclusion**

This thesis shows that the free market policy enshrined in the New Economic Policy (NEP) adopted by India in 1991 will gravely threaten the livelihood and food security of most of the Indians. It recommends massive public investments in infrastructure in the unorganized sector. It also emphasizes the necessity of government's procurement, distribution and input subsidization operations in the food sector. Both these policies are considered to be absolutely essential for ensuring employment and food security for the masses. It also recommends that the government should finance its expenditures by taxing the capitalists' income.