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# The Impact of Unemployment on Indian Economic Growth

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## ABSTRACT

The true effects of low unemployment aren't quite so simple. In fact, there's often so much happening beneath the surface that it can be confusing for most people to follow along. At least those of us who aren't economic experts.The Real GDP growth and unemployment is very important for policy makers in order to obtain a sustainable rise in living standards. The paper aimed to discuss the Unemployment and economic growh in Indian situations In contrast, if the GDP growth is above its natural level, policy makers will decide not to intensively promote the creation of new jobs in order to obtain a sustainable growth rate which will not generate inflation.

**Keywords**: Unemployment, Economic Growth and Present Situation.

**Backdrop**

The Unemployment is a key economic indicator because it signals the ability (or inability) of workers to obtain gainful work and contribute to the productive output of the economy. More unemployed workers mean less total economic production.Unemployed workers must maintain at least subsistence consumption during their period of unemployment. This means that an economy with high unemployment has lower output without a proportional decline in the need for basic consumption.

The Economic growth refers to an increase in aggregate production in an economy, which is generally manifested in a rise in national income.Since World War II, the U.S. economy has experienced more expansions than contractions. Between 1945 and 2019, the average expansion lasted about 65 months, while the average contraction was only 11 months. However, the Great Recession, from December 2007 to June 2009, went on for 18 months. This was followed by the longest expansion on record, 128 months, lasting until 2020 and the advent of the COVID-19 pandemic.

The most common measure of economic growth is the real GDP. This is the total value of everything, both goods and services, produced in an economy, with that value adjusted to remove the effects of inflation. There are three different methods for looking at real GDP. For the very first time, the relationship between unemployment and GDP growth has been examined and considered by Okun(1962) suggesting that there is a negative relationship among these variables, such as real productions and level of unemployment, later on, known as Okun's law in the economy. (Fischer, 2000) Okun Law presumes that in periods when economic growth is above 2.5%, for every 1% increase in output level, it causes a drop in unemployment by 0.5%. (Guisinger, 2018) The main intention of this research is the review of the relationship between unemployment and GDP growth, and other indicators that are part of the model, besides this the results of the test show the impact of each variable to see the power of their effect on GDP on Western Balkans.

**Literature Review**

Bankole and Fatai (2013) estimated the Okun's coefficient, and checked the validity of Okun's law in Nigeria, using the time series annual data during the period 1980-2008. Engle granger co-integration test and Fully Modified OLS were employed. The empirical evidences showed that there is positive coefficient in the Regression, implying that Okun's law interpretation is not applicable to Nigeria. It was recommended that government and policy makers should employ economic policies that are more oriented to structural changes and reform in labour market.

Lee (2000) discussed existence of a strong relationship between economic growth and unemployment in his study which supported Okun's law and was conducted for 16 OECD countries.

Malley and Molana (2008) used quarterly data for G7 countries between the years of 1960 to 2001 and they stated that the relationship between economic growth and unemployment was more significant in the case of Germany.

Theoretical analysis of unemployment represents the level of employment as a workforce associated with the degree of success, which together is linked to economic growth. (Al-Hamdi, Mohaned and Alawin, Mohammad, 2016) Unemployment is categorized as one of the most serious barriers to prevent economic progress. (Akinboyo, 1987) and (Raheem, Mufutau Iyiola, 1993) explained that besides the fact that unemployment encourages livelihood in the street, an area in which individuals are inclined to commit criminal offenses against the law, it represents a huge loss of labour force of a country; it produces poverty in the sense that the lowest the output will be, the lower the revenue and the poorer the welfare will be.

Human capital influence productivity and profitability, and it explain the scope and changes in earnings between individuals. In this way, the human capital is the one that influences the opportunity of being employed or not. Despite the opinion that countries in transition have a high level of dominance, evidence has shown that those countries are worse in terms of the quality of labor force. (Hoti, 2003)

Estimation of the impact of FDI on the unemployment rate in Malaysia during 2009, ascertained that in economic growth contribute the level of foreign direct investment. (Irpan, 2016) The author has aligned all the macroeconomic variables of which he came to the conclusion that the growth of FDI contributes on employment rate, which increases the output and so that indicates in GDP growth of a country. (Stephen, 2012) also investigated the impact of unemployment on economic growth in Nigeria during the period 1980-2008. To develop his model, the author applied the Cobb-Douglas production function, by using ordinary least squares (OLS). He found that the unemployment rate varies significantly and vice versa during economic growth. Moreover, the results showed that some macroeconomics indicators contribute on in economic growth of Nigeria whereas some of them do not. In simple terms, he has shown that money supply growth mobilizes savings, increases capital formation and consequently causes the increase on domestic production

However, the high level of unemployment and the prolongation of the unemployment crisis proved to have had a negative impact on the economy, which means that unemployment crises do not favor economic growth. World Bank in its report regarding unemployment crises for Western Balkans, conducted by regression, assessed the relationship between unemployment and economic growth, and based on empirical results came to the conclusion that an increase of 1% of GDP is associated with 0.37% decline in the unemployment rate in the Western Balkans and 0.25% in the developed countries of Europe thus, suggesting the negative relationship between economic growth and unemployment. (Wordl Bank, 2017)

Palokangas had similar research results when he investigated the impact of the wage efficiency system and the centralized wage negotiation system, involv- ing the participation of trade unions, on economic growth and unemployment. When unions are initially very strong, regulations increase an employee profit share and this does not affect employment and growth.

However, when the posi- tion of unions is weak, increased labor market regulation favors economic growth, but at the expense of employment and current consumption (increased unemployment) (Parello 2010).

## Economic Growth in India

The Strong economic growth in the first quarter of FY 2022-23 helped India overcome the UK to become the fifth-largest economy after it recovered from repeated waves of COVID-19 pandemic shock. Real GDP in the first quarter of 2022–23 is currently about 4% higher than its corresponding 2019-20, indicating a strong start for India's recovery from the pandemic. Given the release of pent-up demand and the widespread vaccination coverage, the contact-intensive services sector will probably be the main driver of development in 2022–2023. Rising employment and substantially increasing private consumption, supported by rising consumer sentiment, will support GDP growth in the coming months.

Future capital spending of the government in the economy is expected to be supported by factors such as tax buoyancy, the streamlined tax system with low rates, a thorough assessment and rationalisation of the tariff structure, and the digitization of tax filing. In the medium run, increased capital spending on infrastructure and asset-building projects is set to increase growth multipliers, and with the revival in monsoon and the Kharif sowing, agriculture is also picking up momentum. The contact-based services sector has largely demonstrated promise to boost growth by unleashing the pent-up demand over the period of April-September 2022. The sector's success is being captured by a number of HFIs (High-Frequency Indicators) that are performing well, indicating the beginnings of a comeback.

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**Effects of Unemployment on the Economy**

In addition to effects on the individual and societal levels, unemployment also directly impacts the economy as a whole. According to the U.S. Bureau of Labor Statistics, when people are unemployed, they spend less money, which ultimately contributes to less contribution to the economy in relation to services or goods sold and produced. Unemployed persons also experience a reduced purchasing power which can leave other individuals who create products that were purchased by these individuals without jobs as well.

Additionally, more than 70% of what the United States economy produces is purchased by consumers. Unemployed individuals consume much less than those who are employed, so a higher unemployment rate can leave the economy lacking in terms of products sold. This can leave organizations with decreased revenue.Career Guide Individuals who are unemployed are often more susceptible to several challenges, including difficulty in finding future employment and decreased income. Unemployment also impacts society and the economy as a whole. The longer a person is unemployed, the more likely they are to experience potential negative effects and contribute to the multiplier effect that unemployment has on the community.

In 2019, unemployment rates in the U.S. hit a 50-year low. The country has generated millions of new jobs since the Great Recession, when unemployment reached its height at 10 percent. While this might typically be viewed as a success worth celebrating, some experts believe it's possible for an unemployment rate to get too low. Follwing three reasons-

When the unemployment rate reaches a record low — as it recently did in the U.S. — most people would assume that's a positive sign. It means the economy is continually strengthening and workers are seeing ample opportunities to land sustainable and fulfilling jobs, right?

So, what does a record low unemployment rate really mean for American workers and business owners? While you may be accustomed to hearing about the positive impact on our economy, you're probably less familiar with the potential downsides. Read on to learn about three negative impacts of low unemployment that are worth keeping in mind.

**Negative Side Effects of Low Unemployment**

Follwimg three reasons of negative side effeçt of low unemplyeement:

**A. Low unemployment often results in lost productivity**

Economists have determined that when unemployment reaches unprecedented lows, the labor market can reach a point where each additional job added doesn't generate enough productivity to cover its cost. Every subsequent job will contribute to a scenario where what an economy actually produces diverges from what it has the potential to produce — known by many as the "output gap."

**B. Low unemployment could mean another recession is coming**

The last time we saw unemployment rates as low as they are today was in 1969, when President Richard Nixon was still in office. While unemployment fell to 3.5 percent in December 1969, it shot back up to 6.1 percent a year later. The conditions back then, many note, closely mirror what we're seeing now. After a historically long economic expansion, the American economy fell into a recession — although a mild one.

**C. Low unemployment makes recruitment and retention more difficult**

This first negative impact that can result from low unemployment is a bit more obvious than the others: When jobs are plentiful and more employees are finding stable work, the pool of candidates applying for open positions shrinks.At the same time, organizations may see an increase in employee turnover when workers have ample opportunities at their fingertips. Simply put, employees can afford to be choosey when it comes to finding new positions that might better suit their wants and needs.

**Effects of unemployment on an individual**

Individuals who do not have a job are considered unemployed. This includes not having either a part-time, full-time or independent contractor position. People who are actively looking for work and are currently available for work but do not have a job are also considered unemployed Unemployed individuals are susceptible to experiencing several challenges. These challenges are exacerbated the longer a person is unemployed. Common disadvantages of unemployment for individuals include.

People who are unemployed and do not have any other source of income often rely on their savings or borrowed money to fund essential costs such as food and living expenses. Unemployed individuals who are the primary worker in the family face even more difficulty, as they must come up with the money to account for not only their own needs but for the needs of their family members.

**Present Situation in india**

India is on track to become the world's third largest economy by 2027, surpassing Japan and Germany, and have the third largest stock market by 2030, thanks to global trends and key investments the country has made in technology and energy. India is already the fastest-growing economy in the world, having clocked 5.5% average gross domestic product growth over the past decade. Now, three megatrends—global offshoring, digitalization and energy transition—are setting the scene for unprecedented economic growth in the country of more than 1 billion people.

The Indian economy expanded 4.4% year-on-year in the three months to December of 2022, below 6.3% in the three months to September and forecasts of 4.6%. Private spending which accounted for 61.6% of the GDP in Q4, slowed sharply (2.1% vs 8.8% in Q3), hurt by a rise in borrowing costs. At the same time, investment rose at a slower pace (8.3% vs 9.7%), government spending contracted (-0.8% vs -4.1%) and both exports (11.3% vs 12.3%) and imports (10.9% vs 25.9%) lost steam. On the other hand, stocks rebounded (0.2% vs -2.3%). On the production side, the manufacturing sector shrank for a second time (-1.1% vs -3.6%) and a slowdown was seen in finance and real estate (5.8% vs 7.1%) and trade, hotels, transport and communication (9.7% vs 15.6%). In contrast, output in the mining sector rebounded (3.7% vs -0.4%) and faster increases were seen in farm (3.7% vs 2.4%), utilities (8.2% vs 6%) and construction (8.4% vs 5.8%). The growth rate for the 2022/2023 fiscal year was kept unchanged at 7%.

Annual percentage growth rate of GDP at market prices based on constant local currency. Aggregates are based on constant 2010 U.S. dollars. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources.

India gdp growth rate for 2021 was 8.68%, a 15.28% increase from 2020.

India gdp growth rate for 2020 was -6.60%, a 10.33% decline from 2019.

India gdp growth rate for 2019 was 3.74%, a 2.72% decline from 2018.

India gdp growth rate for 2018 was 6.45%, a 0.34% decline from 2017.

During the COVID-19 pandemic, numerous rating agencies downgraded India's GDP predictions for FY21 to negative figures, signalling a recession in India, the most severe since 1979.The Indian Economy contracted by 6.6 percent which was lower than the estimated 7.3 percent decline.In 2022, the ratings agency Fitch Ratings upgraded India's outlook to stable similar to S&P Global Ratings and Moody's Investors Service's outlooks.In the first quarter of financial year 2022–2023, the Indian economy grew by 13.5%.

**Unemployment in India**

in India is characterised by chronic (disguised) unemployment. Government schemes that target eradication of both poverty and unemployment – which in recent decades has sent crores of poor and unskilled people into urban areas in search of livelihoods – attempt to solve the problem by providing financial assistance for starting businesses, honing skills, setting up public sector enterprises, reservations in governments, etc. The decline in organised employment, due to the decreased role of the public sector after liberalisation, has further underlined the need for focusing on better education and created political pressure for further reforms. India's labour regulations are heavy, even by developing country standards, and analysts have urged the government to abolish or modify them to make the environment more conducive for employment generation.The 11th five-year plan has also identified the need for a congenial environment to be created for employment generation, by reducing the number of permissions and other bureaucratic clearances required.Inequalities and inadequacies in the education system have been identified as an obstacle, which prevents the benefits of increased employment opportunities from reaching all sectors of society.

## Conclusion

The India has made progress in increasing the primary education attendance rate and expanding literacy to approximately three-fourths of the population.India's literacy rate had grown from 52.2% in 1991 to 74.04% in 2011. The right to education at the elementary level has been made one of the fundamental rights under the Eighty-Sixth Amendment of 2002, and legislation has been enacted to further the objective of providing free education to all children.

The India's economy is of global importance. It has a large and young population and an open and democratic political system. It is already the third largest economy and contributor to global economic growth, yet there is considerable untapped potential. improvements.Unemployed individuals experience reduced income as a direct result of not having a job. Because a job provides wages for the person, being unemployed takes away these wages and leaves the individual with less available income.

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