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**EMPLOYMENT AND GROWTH UNDER
CAPITALISM: SOME CRITICAL ISSUES
WITH SPECIAL REFERENCE TO INDIA**

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Employment and Growth under Capitalism: Some Critical Issues with Special Reference to India

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Mainstream neo-classical economics cannot take into account the problem of involuntary unemployment. The usual explanation for any existence of unemployment is the presence of wage or price rigidity in the market, the removal of which will lead to full-employment. This view is fundamentally wrong as has been proven by John Maynard Keynes and his followers.

It is argued in the paper that capitalism being a demand constrained system cannot reach full-employment. Moreover, there is no mechanism under capitalism to spontaneously check any secularly rising unemployment or labour shortages. However, the fact that capitalism did not witness any such rising unemployment or labour shortages is because of its interactions with the external markets. One way was to use the 'New World' as an investment outlet to keep up growth in the core and the other way was to exploit the colonies to extract resources as well as use them as markets for the core's finished goods. But this same process destroyed the industries of the periphery thereby resulting in massive unemployment in the developing countries.

In short, this explains the presence of massive labour reserves in the developing countries, whose existence in mainstream theory is explained by inadequacy of capital, high population etc, which are fundamentally wrong for not taking into account the entire question of colonialism.

It can be however argued that this pattern no longer exists. The current existence of unemployment in the developing countries is simply because of the fact that the growth rates of these countries are not enough to reduce the problem of unemployment. The paper argues that this is not necessarily the case. It is shown that in India during the time when the economy was growing most rapidly, the growth rate of employment slowed down and more people were pushed below a particular level of wage rate denoting massive underemployment in the economy. This was because of the particular growth process in India which necessarily reduced labour

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absorption in the economy. This points to the fact that achieving a higher rate of growth is not a sufficient condition for generating more employment.

It is emphasized in the paper that only focusing on growth for solving the problem of unemployment is mere GDP-fetishism. What is more important is the pattern of growth and the social relations underlying it.

1. Introduction

“The outstanding faults of the economic society in which we live are its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and incomes.”— Keynes in *General Theory, Chapter 24*.

“Meanwhile, each succeeding winter brings up afresh the great question, ‘what to do with the unemployed’; but while the number of the unemployed keeps swelling from year to year, there is nobody to answer that question; and we can almost calculate the moment when the unemployed losing patience will take their own fate into their own hands.”— Engels in Preface to the English edition of Marx’s *Capital Vol I*.

The above mentioned lines were written by two great minds on the question of unemployment. The quote from Keynes is more than 70 years old, while that from Engels is more than 120 years old. Still, both these sentences can depict the reality even today, where millions of people around the world are still unemployed, living under misery and destitution.

While these lines are relevant even today, capitalism, apparently, has changed completely since the days of Engels and Keynes. When Engels was writing the preface to the English edition of Marx’s *Capital*, the world had not witnessed the devastations unleashed by the First World War. Rather that period, before the First World War, constituted a period of long boom under capitalism. On the other hand, Keynes was writing in the immediate aftermath of the Great Depression which was one of the most severe crisis to afflict capitalism in its history. Today, on the other hand, we are witnessing another phase of capitalism where it is mainly characterised by the rising to dominance of international finance capital. The striking point however is that unemployment persisted as a problem in all these periods of capitalist history.

The paper argues that in order to understand such persistent unemployment, the starting point of analysis of capitalism should be that capitalism in its classical form is a demand constrained system.¹ The recognition of this aspect of capitalism leads to the formulation of the characteristics and problems under capitalism in a completely different perspective as compared to the neo-classical theory. It can be shown that in a demand constrained system, involuntary unemployment must exist and theoretically there is no tendency under capitalism to spontaneously remove any growing unemployment.

However, capitalism did not witness any secularly increasing unemployment or labour shortage during the period before the World War I, when capitalism witnessed a sustained boom. How to explain this phenomenon? The paper argues that the interaction of metropolitan capitalism with the external markets, ensured that capitalism did not witness any problem of rising unemployment or labour shortage. This interaction of metropolitan capitalism with its colonies (external markets), resulted in retarded production structure in the colonies with the presence of massive labour reserves. The basic question of development has centred around the problem of providing employment to this labour reserve in the developing countries.

In this context, it is often argued that the basic goal of the developing countries should be to increase their growth rate since, high growth rate of an economy will automatically take care of the problem of unemployment. This belief in the higher rate of growth of output as the panacea for unemployment is based on the following: firstly, it is believed that if unemployment exists because of a shortage of wage goods or capital goods, the higher growth rate of output by definition increases the output of these goods which in turn eases out the supply constraint and the problem of unemployment is taken care of. Secondly, in the case of a demand constraint, the existence of this constraint precludes the possibility of having a higher growth rate. In this case then, the realization of a higher growth rate, *ipso facto*, means the overcoming of such a constraint, thereby leading to a fall in the unemployment rate.² The paper tries to check the

1 Kornai (1979)

2 Patnaik, P. (2003)

validity of the claim that attainment of high growth rate will take care of the problem of unemployment in the context of India.

2. Unemployment Under Capitalism

2.1 Non-existence Of Unemployment In Neo-Classical Models: A Logical Fallacy

The question of existence of unemployment in the capitalist system is ruled out by the neo-classical models. This is because of the following. The neo-classical model envisages a world of perfect wage price flexibility with perfect competition prevailing in all the markets with perfect foresight. In such a world, the wage price flexibility ensures that the economy attains full employment at a set of equilibrium prices. Equilibrium in the economy must also entail an equilibrium in the money market which is ensured if the excess demand curve for money is negatively sloped with respect to its price or value, which is the same as the reciprocal of the price level. In other words, the demand for money must be a positive function of the price level in the economy. In such a world, the role of money as a means of holding wealth is ruled out, where the role of money is seen only as a 'medium of circulation'.

The assuming away of the role of money as a medium of holding wealth is however logically incorrect. This is because of the following. If money is held for circulation purposes then it has to be the case that it is a means of holding wealth. This can be expressed in the Marxian diagram of C-M-C. Here a commodity of value C is converted into money value of M to procure another commodity of value C. Now, the act of changing the first commodity into money and procuring the second commodity is not simultaneous. There is a time period, however short, in which the value is held in money form before the procurement of the second commodity. In this time period then money has to act as a medium of holding wealth.

This argument can be logically extended another step. Let us assume that for some reason, the first commodity is converted into money but is then held in money form without procuring the second commodity. In this case then, the C-M-C chain breaks down with the value being stored in the form of money, giving rise to the possibility of a problem of demand in the economy, with money acting as a medium of holding wealth.

2.2 Existence Of Unemployment In A Demand Constrained System

As soon as the role of money as a form of holding wealth is recognized, involuntary unemployment arising from deficient demand under capitalism becomes a possibility. This is because of the following. In a closed demand constrained system, investment is the main determinant of output and employment via the multiplier.³ The level of investment gets determined by the expectation of the capitalists about the future. With money existing as a means of holding wealth there is no reason *a priori* as to why the investment level in the economy should match with the level which attains full employment in the system.⁴

It can however be argued that if the spontaneous working of the capitalist system cannot generate the full-employment level of investment, why cannot the state increase its investment expenditure and reach the full-employment level? This is not possible because, the state taking upon itself a social role normally reserved for the capitalists, by way of carrying out investments, is unacceptable to the capitalists, who see this act of intervention by the state as an intrusion into their domain. Moreover, with the attainment of full-employment, the disciplining device of capitalism, in terms of the threat to sack the workers, loses its potency, thereby unsettling the social and political institutions of capitalism.⁵ The analysis of Keynes and Kalecki, however, is restricted to the short run. If in every short period capitalism must entail a situation of unemployment, this essentially implies that in the long run too, which can be thought of as a continuum of short periods, capitalism must have unemployment.

2.3 Instability In A Demand Constrained System: The Harrod Model

In a demand constrained system, the output at any period is determined by the autonomous investment through the multiplier. If we however consider the capitalist economy in the long run, then investment has another role, which is of adding to the capacity of the productive system. Harrod's model takes this dual role of

3 Keynes (1937)

4 This was the essence of the Keynesian theory of unemployment.

5 Kalecki (1943)

investment into account and shows that the equilibrium growth path of a capitalist economy is inherently unstable, as explained below.

If the rate of growth of capital stock planned by the capitalists happens to be equal to the warranted growth rate (g_w) then the economy will be in equilibrium in any period. Since, when the economy is in equilibrium, the rate of growth planned for the next period will be the same as in the current period, it follows that if the growth rate is equal to g_w , it will persist. While g_w gives the equilibrium growth rate, the actual growth rate may differ from it. This is because, the economy need not be on the warranted growth path, ie, the warranted growth path has no stability property.

The second major problem focused in Harrod's model is the long run problem of equating the warranted rate of growth, with the natural rate of growth of the economy determined by the rate of growth of labour supply, which is equal to $n+m$, where

n =natural rate of growth of labour force.

m =rate of growth of labour productivity.

If $g_t = g_w = n+m$ then, the economy continues to grow at this rate, with a constant rate of unemployment in the long run. However, if $g_t = g_w < n+m$, then, the economy experiences persistent increase in unemployment.

If $g_t = g_w > n+m$, then the economy will hit the full-employment ceiling. Once it does so, the economy cannot continue to grow at the warranted growth rate due to labour shortage. In other words, the actual growth rate of the economy has to come down. In this case then, the economy will cumulatively move away from the warranted growth path⁶ in a downward direction, resulting in growing unemployment.

Now, in Harrod's model, there are essentially two kinds of instabilities. One is the problem of the actual growth rate equalling the warranted growth rate. If this is not the case, then the economy cumulatively moves away from the warranted growth path, resulting either in an ever increasing growth rate or in the reduction in growth rate to zero. Secondly, even if the actual growth rate in the economy, equals the warranted growth rate, there exists no reason *a priori* for the equality

6 Introduction by A.K. Sen in Sen (1970)

between Harrod's warranted rate of growth and the growth of labour in efficiency units. Therefore, left to itself, the economy, according to Harrod, has little chance of steady growth with constant unemployment. It must either face growing unemployment or labour shortages, subsequent to which the problem of unemployment will again resurface. Left to itself, therefore, a capitalist economy, as characterised by Harrod, has no inherent spontaneous mechanism to get rid of the problem of growing unemployment.

3. Historical Experiences of Unemployment Under Capitalism

In the last section it was shown that unemployment must exist under capitalism, which is a demand constrained system. Moreover, there is no mechanism within capitalism which can spontaneously eliminate rising unemployment. However, the historical experience of capitalism, in the advanced capitalist countries, in the period before the World War I which witnessed a period of boom, did not witness secularly growing unemployment or acute labour shortage as was predicted by the theoretical discussion in the last section. In fact advanced capitalism has reduced greatly the problem of labour reserves as compared with the developing countries, where we find large masses of people unemployed or underemployed. How to explain this dichotomy of development, with respect to employment, in the different regions of the world?

Capitalism did not witness any secular increase in unemployment during the period preceding the World War I precisely because capitalism was not an isolated system but had the pre-capitalist economies in its surroundings to use for its own benefit. The problem of unemployment was kept at tolerable levels in essentially two ways.

Firstly, capitalist accumulation in the years before World War I witnessed massive labour migration to the "empty spaces" of white settlement areas, particularly to the USA. The extent of migration to these areas is given in the following table:

Table 1: Emigration and Immigration to Lands of European Settlement (Millions of Persons)

	Emigration to Lands of European Settlement	Immigration to Lands of European Settlement
1871-80	3.1	4.0
1881-90	7.0	7.5
1891-1900	6.2	6.4
1901-1911	11.3	14.9

Source: Eric Hobsbawm (1987)

Note: The difference between the total for immigration and emigration questions the reliability of the estimates.

The above table shows that more than 32 million people immigrated into the lands of new European settlement, between 1871 to 1911. The direction of this migration was predominantly from Europe to the USA. "The bulk of total intercontinental migration, for which we have estimates since the 1880s, was from Europe – over 95% between 1846 -1932; and the bulk of intercontinental immigration was to the United States until the very recent years –almost 58% of the total for 1821-1932."⁷

Thus we can see that there was massive migration of people from Europe to the new world during this period. How did this massive migration of people ease the problem of unemployment? This phenomenon served two purposes. On the one hand, those persons, who could not be absorbed in employment in the capitalist core migrated to these regions thereby negating the possibility of mass unemployment in the core. This has been put forth in the most lucid manner by Hobsbawm:

"The more of them that were shipped abroad, the better for them (because they would improve their conditions) and for those left behind (because the labour market would be less overstocked). Benevolent societies, even trade unions, arranged to subsidize the *emigration* of their clients or members as *the only practicable means of dealing with pauperism and unemployment*"⁸

7 As quoted in Bagchi (1972)

8 Quoted from Hobsbawm (1996) page: 199 Emphasis mine.

The fact that the biggest industrializing countries of the epoch, Britain and Germany were also the biggest exporter of men⁹ only shows that the growing capitalism could not sustain a higher level of employment for the masses.

At the same time, the real wages of these workers in the temperate region were high since the poor shifted to these areas and earned a higher living than what was available in their home countries, because they occupied virgin territory by driving off local inhabitants. Along with this as a result of the shifting out of this mass of workers from the capitalist core, the real wage increased even in the capitalist core. This provided a growing market for the industrial commodities produced in the capitalist core. Again, the investment in the 'New World' sustained a higher growth rate of capitalism during this period. The 'New World' was thus of paramount importance for capitalism, so much so that many writers including Keynes saw one of the causes of the Great Depression in the closing of this frontier for capitalism.¹⁰

Secondly, the capitalist core exported unemployment to the colonies and thereby also maintained a higher level of employment domestically. This export of unemployment was done in at least two different ways. Firstly, the colonies were flooded with manufactured cotton textiles from England and a one way tariff system was imposed whereby goods from colonies like India could not find market in England. This resulted in large-scale de-industrialization and unemployment for the colonial economies. Secondly, the surplus extracted from the colonies, like India, was used to finance England's balance of payment deficits which retarded the possibilities of industrial development in the colonies.

Therefore, the non-existence of rising unemployment and the concomitant shift in the labour force from agriculture to industry, in the capitalist core, was not a result of any immanent tendency of capitalism. Rather it was because of the fact that capitalism could exploit the pre-capitalist markets which ensured that it did not witness the problem of rising unemployment. The labour migration solved any problem of rising unemployment for these advanced countries, the export market of the colonies provided the necessary inducement to invest, while the surplus itself was

9 Hobsbawm (1996)

10 Patnaik, P. (2007)

greatly enhanced by the surplus siphoned off from the colonies. However, in the process of doing so, capitalism inflicted large scale unemployment in the colonies and decimation of the indigenous population in the temperate regions. In other words, the existence of large scale unemployment, and the retarded production structure of the developing countries are obverse of the fact of capitalist core not experiencing rising unemployment with a developed industrial structure.

3.1 Employment Problem In The Era Of Neo-liberalism

However, the above process ended after de-colonisation, whereby the control of global capital on the colonies was reduced. Simultaneously, capitalism relied largely on state expenditure for boosting its growth as well as employment. However, the period after the 1970s was marked by a rising to dominance of finance capital, which entailed deflationary policies being pursued all over the globe. This consequently reduced the growth rate of the world economy as is evident from the following table:

Table 2: Average Annual Rates of Growth of World GDP

Year	Growth Rate (in %)
1913-50	1.85
1950-73	4.91
1971-80	3.7
1981-90	3.0
1991-2000	2.6
2001-05	2.5

Source: First two rows from A. Maddison (2003) Table B-19 and the rest from C.P. Chandrasekhar (2007)

Added to this slow pace of growth of the world economy is the fact that there has been an increase in the rate of growth of labour productivity in the world economy based on the introduction of new technologies, particularly that of electronics and information technology.¹¹ This reduction in the trend rate of growth of the world GDP along with a rise in the rate of growth of labour productivity, resulted in a rise in the unemployment rate for the

11 Chandrasekhar (2007)

OECD countries taken as a whole. This is shown in Chart 1 in the Appendix.

During the period of the so called Golden Age of Capitalism, the unemployment rates in the OECD countries, which are basically the advanced capitalist countries, decreased drastically from around 6% to slightly more than 2%, (1960-1973). However, since 1973, with the pursuit of the policies of demand deflation under the neo-liberal dispensation, the unemployment rate has increased steadily, presently being almost the same as what prevailed before the commencement of the so called Golden Age of Capitalism.

This problem of slow growth in the world economy along with a rising growth rate of labour productivity must be affecting the developing countries adversely in terms of using up its labour reserves. It should be however noted that the growth rate in most of the developing countries is higher than what prevails in the advanced countries, if we consider the last two decades. This is shown in the following table:

Table 3: Average Annual Growth Rates of GDP, Various Countries

	1989-1996	1997-2004
World Real GDP	3.1	3.8
Advanced Countries	2.7	2.7
Developing Countries	3.7	5.3

Source: World Economic Outlook, October 2007, IMF

From the above table it is evident that the growth rate of the world has been sustained and marginally increased solely because of the growth rate of the developing countries, since the growth rate of the advanced countries is stagnant. The high growth rate of the developing countries is mainly because of the very high growth rates of India and China. In the case of India, it can be argued that with the economy attaining a higher level of growth, the problem of labour reserves in the country should be reduced. We now look into this question in detail.

4. Employment Problem In India

4.1 Economic Reforms and Employment Trend in India

The policies of reform, in India, were aimed at reducing the role of

the government in the economy and relying more and more on the private sector, which was supposed to take the economy to a higher growth trajectory with more employment. It was argued that with the forces of competition unleashed in the economy, the investment decisions of the private sector will be efficient. This would mean that India, being a labour abundant country, will specialize in labour intensive commodities for exports, where it has a comparative advantage. And this would take care of the problem of unemployment. Let us now turn to the analysis of the employment trends in India to look into the validity of this claim.

Table 4 gives the employment trends over different periods in India.

Table 4: Annual Growth Rates of Employment In India

	1983 to 1993-94	1993-94 to 2004-05	'93-94 to 1999-00	'99-00 to 2004-05
Rural Male	1.91	1.41	0.78	2.17
Rural Female	1.39	1.55	-0.11	3.58
Rural Total	1.72	1.46	0.47	2.67
Urban Male	3.04	3.10	2.98	3.25
Urban Female	3.36	3.08	1.65	4.82
Urban Total	3.10	3.10	2.70	3.57
Total Male	2.19	1.87	1.37	2.48
Total Female	1.64	1.78	0.15	3.78
Total	2.01	1.84	0.98	2.89

Source: Unni and Ravindran (2007).

Note: Employment Growth Rate is calculated based on the NSS Employment and Unemployment Survey in various rounds.

If we compare the period 1983 to 1993-94 and 1993-94 to 2004-05, it is clear (from Table 4) that male employment as a whole has declined while the female employment has increased only marginally. This has resulted in an overall decline of the growth rate of employment from 2.01% to 1.84%.

If we take into account the sub-periods, then a different picture emerges. Between 1993-94 and 1999-2000, employment growth rate in all categories declined substantially, with the overall employment growth rate recording an abysmally low level of 0.98%. However, in the period 1999-2000 to 2004-05, employment growth rates have increased for all sections of the population, thereby increasing the overall employment growth rate for the economy to 2.89% from the abysmally low level of 1999-2000.

Before going into a detailed analysis of the employment aspects, it would be interesting to compare the employment growth rate with the growth rate of the GDP. This is depicted in Table 5.

Table 5: Employment and GDP Growth Rates In India

	1983 to 1993-94	1993-94 to 2004-05	1993-94 to 1999-2000	1999-00 to 2004-05
GDP Growth	5.03	5.86	6.29	5.76
Employment Growth	2.01	1.84	0.98	2.89

Source: *Employment Growth reproduced from Unni and Ravindran (2007). GDP Growth calculated from Economic Survey, 2007-08 at 1999-2000 prices.*

It is evident from Table 5 that the growth rate of employment during the pre-reform period (1983 to 1993-94) was higher than that of the post-reform period (1993-94 to 2004-05), while the GDP growth rate in the former was less than in the latter. In fact, with the advent of reforms the employment growth rate almost stagnated below 1% when the growth rate of GDP was highest in the particular sub-period (1993-94 to 1999-2000). This points to the possibility that the process of liberalization per se gives rise to certain factors which result in reducing the employment generating capacity of the economy. As opposed to this, it can be actually argued that the employment growth rate between the period 1999-2000 to 2004-05 increased significantly showing that the processes of globalization can actually increase the employment generating capacity of the economy to a significant degree. In the next section we look into the validity of this claim.

4.2 Analysis of The Growth In Employment Between 1999-2000 And 2004-05

4.2.1 Informalization of Employment in India

An important aspect of employment is the kind of jobs that is generated in terms of conditions of work and job security. ILO states that the generation of decent employment in terms of a decent level of wages and job security is of primary importance with regard to eradicating poverty in developing countries, only a high growth is not enough to achieve this.¹² Therefore any increase in the rate of growth

12 "...it is important to keep in mind that growth alone is not enough. It is the decent employment content of growth that really matters if economies want to tackle working poverty along with unemployment.....Only with productive jobs where workers can use their potential, and only with decent employment opportunities, will people permanently stay out of poverty."— World Employment Report 2004-05, page no.: 32

of employment that has been witnessed in India, will have to be analysed in terms of the nature of employment that is generated and the wages that the people are receiving. Let us analyse the employment growth in the Indian economy in this light.

If employment is further decomposed into a growth in employment in the Organized and Unorganized sector then the rosy picture painted by the mere increase in growth rate of employment actually vanishes.

Table 6: Rate of Growth of Employment in Organized Sector In India

	1983 to 1994	1994-2005
Public Sector	1.53	-0.70
Private Sector	0.44	0.58
Total Organized	1.20	-0.31

Source: *Economic Survey, 2007-08*

As is evident from the above table, the growth rate of employment in the organized sector has turned negative, particularly in the public sector. What has essentially happened is that with the process of liberalization there has been retrenchment of workers in the public sector resulting in a negative growth rate of employment in this sector. This would not have been a problem if the private sector had more than compensated for the decline in employment in the public sector. However, this clearly has not happened as is evident from Chart 2 in the Appendix:

From Chart 2 it is clear that public sector employment in the organized sector decreased drastically, between 1997 and 2005. The employment in the private sector also declined after 1997, which has only started to rise in the year 2004. Overall, then, the employment in the organized sector has registered a decline in the reform period, primarily due to the decline in the public sector employment.

This decline in the employment in the organized sector along with an increase in the overall employment entails an informalization of employment. This is brought out most clearly by the NCEUS report.¹³

The 'Report on Conditions of Work and Promotion of Livelihoods in the Unorganized Sector' prepared by NCEUS, Government of

13 National Commission for Enterprises in the Unorganized Sector (NCEUS)'s Report On ConditionsOf Work And Promotion Of Livelihoods In The Unorganized Sector.

India, defines the unorganized sector and the unorganized worker in the following manner:

“The unorganized sector consists of all unincorporated private enterprises owned by individuals or households engaged in the sale and production of goods and services operated on a proprietary or partnership basis and with less than 10 total workers.”¹⁴

“Unorganized workers consist of those working in the unorganized enterprises or households, excluding regular workers with social security benefits, and the workers in the formal sector without any employment/social security benefits provided by the employers.”¹⁵

On the basis of these definitions, the following table is constructed based on NSS employment data of the 55th and 61st rounds:

Table 7: Unorganized and Organized Employment in millions In India

	Informal/ Unorganized Worker	Formal/ Organized Worker	Total
1999-2000			
Informal/ Unorganized Sector	341.3 (99.6)	1.4 (0.4)	342.6 (100.0)
Formal/ Organized Sector	20.5 (37.8)	33.7 (62.2)	54.1 (100.0)
Total	361.7 (91.2)	35.0 (8.8)	396.8 (100.0)
2004-05			
Informal/ Unorganized Sector	393.5 (99.6)	1.4 (0.4)	394.9 (100.0)
Formal/ Organized Sector	29.1 (46.6)	33.4 (53.4)	62.6 (100)
Total	422.6 (92.4)	34.9 (7.6)	457.5

Source: Reproduced from NCEUS report page 4

Note: The figures in parenthesis denote percentage

14 NCEUS Report page: 3

15 NCEUS Report page: 3

The above table brings out clearly that an overwhelming part of the labour force consists of unorganized workers, whose percentage has increased between 1999-2000 and 2004-05. It is also noted from the table that the entire increase in employment in the organized sector has been informal in nature giving practically no employment/social security benefits. This points to a peculiar growth process in the Indian economy which is that even with an increasing growth rate of GDP, the employment in organized sector has practically dried out. Even when there is an increase in the employment in the organized sector, that employment is completely of an informal kind. This points to a worsening of the condition of the workers, a point which we will return to in more detail.

Such informalization of employment should naturally get reflected in the kind of employment that is generated in the economy. As per the classification of the NSSO followed in India, there are essentially three kinds of employment in our country — casual workers, regular salaried workers and self-employed workers. Which kind of employment in this sense has increased in the Indian economy?

Table 8: Percentage Distribution of Employment (Self Employed/Regular Employed/Casual Labour) by Sex and Sector in India

Employment Status and year	Rural		Urban	
	Male	Female	Male	Female
Self-Employed				
1972-1973	65.9	64.5	39.2	48.4
1977-1978	62.8	62.1	40.4	49.5
1983	60.5	61.9	40.9	45.8
1987-1988	58.6	60.8	41.7	47.1
1993-1994	57.9	58.5	41.7	45.4
1999-2000	55.0	57.3	41.5	45.3
2004-05	58.1	63.7	44.8	47.7
Regular Employees				
1972-1973	12.1	4.1	50.7	27.9
1977-1978	10.6	2.8	46.4	24.9
1983	10.3	2.8	43.7	25.8
1987-1988	10.0	3.7	43.7	27.5
1993-1994	8.3	2.8	42.1	28.6

Contd.

Table 8 Contd.

Employment Status and year	Rural		Urban	
	Male	Female	Male	Female
1999-2000	8.8	3.1	41.7	33.3
2004-05	9.0	3.7	40.6	35.6
Casual Labour				
1972-1973	22.0	31.4	10.1	23.7
1977-1978	26.6	35.1	13.2	25.6
1983	29.2	35.3	15.4	28.4
1987-1988	31.4	35.5	14.6	25.4
1993-1994	33.8	38.7	16.2	26.2
1999-2000	36.2	39.6	16.8	21.4
2004-05	32.9	32.6	14.6	16.7

Note : Figures relate to usual status of individuals.
Workforce covers those involved in gainful activity regularly + those involved in gainful activity occasionally.

Source : www.indiastat.com and Employment and Unemployment Situation in India, 2004-05, NSS 61st Round.

From Table 8, it is observed that the proportion of self-employment among both male and female has increased, in both the urban as well as the rural areas, quite significantly in 2004-05 compared to the earlier large NSS round conducted in 1999-00. If we compare the pre-reform period (1987-88) with the current data, for males we observe that the proportion has marginally declined in rural areas, while it has increased by three percentage points for urban areas. However, as far as women are concerned, there has been an overall increase.

As far as the regular employees are concerned, compared to the last large sample survey in 1999-2000, proportion of regular employees has increased for all categories except urban male. However, rise in the proportion for the rural males and females is marginal. Compared to the pre-reform year of 1987-88, except for urban females, the proportion of regular employees for all other categories has either declined or stagnated. Thus it is easily seen, that during the liberalization period in our country there has been an overall decline of the proportion of regular employees.

However, if we look at the proportion of casual labourers in total employment, (between the period 1999-2000 and 2004-05), it has

declined for all the categories, with a very sizeable decline in the proportion of females in both rural and urban areas. As compared to the pre-reform period (1987-88), in 2004-05, the proportion of casual labourers for all females has declined while that of rural males has increased marginally and for urban males the proportion is same as in 1987-88.

Therefore, the increase in employment that has been witnessed in the latest round of the NSS survey has been predominantly due to an increase in self-employment. As a result of this, around half of the work force in India are self-employed who work for no employer. This can be interpreted as a positive development where people are voluntarily moving away from paid jobs and turning into their own bosses. Is this optimism regarding self-employment well grounded? Let us see what the data reveal.

The NSS survey for the first time in the 61st round collected information on the perception of the self-employed persons regarding whether the earnings from their occupations were remunerative. This information is presented in the following table:

Table 9: Perceptions Regarding Remuneration in Self-Employment

	Percent finding their self-employed activity remunerative	Per cent finding this amount of Rs. per month remunerative					
		0-1000	1001-1500	1501-2000	2001-2500	2501-3000	> 3000
Rural males	51.1	12.9	17.5	16.5	11.4	12.9	27.3
Rural females	51.4	34.2	23.5	15.4	8.9	7.2	9.9
Rural persons	51.2	21.2	19.7	16	10.5	10.7	20.5
Urban males	60.9	4.9	8.2	9.9	7.2	12.2	56.5
Urban females	50.9	32.8	20.2	12.6	7.7	8.1	18.3
Urban persons	58.6	10.4	10.6	10.4	7.4	11.5	48.9

Source: Chandrashekhara and Ghosh (2006a)

From the table it is clear that almost half of the self-employed persons in rural areas and almost 41% of them in the urban areas perceived their employment to be non-remunerative. At the same time, there has been a decline in the wage employment in India in 2004-05 as compared to 1999-2000. This is evident from the fact

that casual employment for all categories of workers taken together has declined drastically, (see Table 8) while there has been only a marginal increase in the proportion of workers employed in regular employment (see Table 8). This indicates that there has been a growing difficulty for the workers to get employed in paid jobs. On top of this, the fact that a large proportion of people engaged in self-employment do not perceive their remuneration to be satisfactory suggests that a large part of the increase in employment in the self-employed category could be distress driven.

4.2.2 Wage Earnings In India

The previous discussion pointed out that the increase in self-employment in the Indian economy is not generating enough earnings for a large part of the self-employed population. What is the picture for the other constituents of the work-force, namely casual workers and regular salaried workers? Have the real wages for the wage earners in the economy increased?

The following table shows the movement of the average real wage of workers¹⁶ through various rounds of NSS surveys:

Table 10: Real wage rate of regular and salaried workers calculated in Rs in 1993-94 prices

Regular Salaried Worker					
	1983	1987-88	1993-94	1990-00	2004-05
Rural Male	37	53.9	58.5	80.2	83.8
Rural Female	25	38.5	34.9	71.8	49.4
Urban Male	57.7	72.3	78.1	102.3	101
Urban Female	42.2	60.1	62.3	84.6	76.1
Casual Worker					
Rural Male	18.2	22.3	23.2	28.6	31.1
Rural Female	11.3	13.8	15.33	18.5	20.2
Urban Male	26.5	29.4	32.4	38.1	37.3
Urban Female	12.9	15.5	18.5	23	21.8

Source: Unni and Ravindran (2007)

¹⁶ Real wage for casual (regular) workers is calculated by taking the average wage of all casual (regular) workers in the particular sector and then converting that into 1993-94 prices.

From the above table it is clear that the real wage for regular/salaried workers has declined for every category of worker, (except for rural male) between 1999-00 and 2004-05. As far as the casual workers are concerned, there has been improvement in the real wages for all rural workers while the real wage has fallen for all urban workers during the same period. Let us however see what has been the average annual growth rate of the real wage for different categories of workers between the periods, 1993-94 to 1999-2000 and 1999-2000 to 2004-05. This is shown in the following table:

Table 11: Average Annual Growth Rate of Real Wage Calculated in 1993-94 prices

Regular Salaried Worker		
	1993-94 to 1999-2000	1990-2000 to 2004-05
Rural Male	6.18	0.9
Rural Female	17.62	-6.24
Urban Male	5.16	-0.25
Urban Female	5.97	-2.01
Casual Worker		
Rural Male	3.15	1.75
Rural Female	2.86	1.84
Urban Male	2.49	-0.42
Urban Female	3.26	-1.04

Source : Calculated from Table 10

It is seen from the above table that for majority of the workers the real wage rate actually declined in the period, 1999-2000 and 2004-05. At the same time it is also seen from the above table that even in case of workers for whom the real wage rate has increased, (rural male regular workers and casual workers of both sexes in the rural areas) in the period, 1999-2000 to 2004-05, the rate of increase of the real wage has been less than what was the case in the period 1993-94 to 1999-2000.

It is therefore observed from the above discussion that the employment growth in India in the period, 1999-2000 to 2004-05 has been accompanied by a worsening of the earning of the workers.

4.2.3 How Real is The Growth of Employment?

In order to further investigate into the problem of employment, we try to question the basic notion of employment as has been propounded in the literature. We try and develop an alternative

framework for measuring employment, and analyse the employment in the light of this.

The concept of employment or who is to be considered as employed has been discussed at length in Amartya Sen (1975). Sen defines three aspects of employment: (a) income aspect; employment gives an income, (b) production aspect; employment yields an output and (c) recognition aspect; employment gives the person a recognition of doing something worthwhile. Sen then proceeds to qualify each of these aspects of employment.

Recognition Aspect: According to this aspect, a person who is not satisfied with his/her job for various reasons and is searching for other employment is deemed to be unemployed.

Production Aspect: The employment of the person must produce an output. The discussion of this has been most prevalent with respect to disguised unemployment. If the withdrawal of a part of the labour force in a farm does not result in a decrease in the output of the farm, then the persons so withdrawn were essentially unemployed in disguise.

Income Aspect: If the earning of a person is conditional to his work, then that person is employed according to this criterion.

The problem with Sen's argument is the following: Sen does not recognize the concept of getting an income for maintaining even a minimal subsistence level as a criterion for judging whether a person is employed or not. In fact he goes on to assert that this approach is not concerned with the magnitude of the income of the worker. It only suffices that s/he gets the income on the condition that s/he works. This approach denies the concept of a subsistence wage and undermines the macroeconomics of wages and employment. Rather it can be argued, as has been done by Joan Robinson (1936), that in a society where there is no unemployment benefit, a decline in effective demand (or employment opportunities) will not necessarily result in complete idleness or joblessness of the workers, since they have to eke out a living.

To Quote Robinson:

"In a society in which there is no regular system of unemployment benefit, and in which poor relief is either non-existent or 'less eligible' than almost any alternative short of suicide, a man who is thrown out of work must scratch up a

living somehow or other by means of his own efforts. And under any system in which complete idleness is not a statutory condition for drawing the dole, a man who cannot find a regular job will naturally employ his time, as usefully as he may."¹⁷

What essentially happens is that workers then get employed in low productivity low wage jobs, which according to her constitutes disguised unemployment.

Again, to quote Robinson:

"Thus except under peculiar conditions, a decline in effective demand which reduces the amount of employment offered in the general run of industries will not lead to 'unemployment' in the sense of complete idleness, but will rather drive workers into a number of occupations –selling match boxes in the Strand, cutting brushwoods in the jungles, digging potatoes on allotment – which are still open to them.....Thus a decline in demand for the product of the general run of industries, leads to a diversion of labour from occupations in which productivity is higher to others where it is lower"¹⁸

If there is an increase in the productive job opportunities, the demand for high wage jobs in industries will increase. These workers will then gain meaningful employment in these industries. While statistically speaking there will not be a change in the unemployment rate, the wages of the employed will be higher than the previous situation, which in turn will increase the output of the economy. In this sense, people engaged in low paid jobs, just to eke out a living, are essentially disguised unemployed. It can be argued that Sen has already taken this factor of low wage jobs into account in the discussion of recognition aspect itself, whereby a person who is getting such a low paid job will not be satisfied with the job and hence deem oneself to be unemployed. This line of argument entails a subjective opinion about one's well being rather than based on an objective notion of subsistence and livelihood. With a reduction in employment opportunities, as has been already discussed, workers are pushed towards low productivity jobs. More importantly however, what happens is the following. In a situation where the general run

17 Robinson, J. (1936)

18 Robinson, J. (1936)

of industries cannot provide productive jobs to the workers, they crowd in low productive occupations and share from an already low mass of jobs. This crowding in of workers in low productive jobs essentially increases the number of people sharing the same amount of work opportunities. This brings down the wage rate even further. In other words, while the people engaged in these jobs are getting lower wages, even if a portion of these persons are withdrawn from these jobs the output of the lower end occupations in which they are engaged will not decline. Hence, it can be said that many of the people engaged in these jobs are unemployed in disguise though they do not think so, since they are working to earn a living. Sen's argument relates to individuals and their subjective opinion regarding whether they perceive themselves to be employed or not. But in a situation as described above, the individual workers might recognize themselves to be employed, while from the perspective of the society they are essentially unemployed in disguise.

Let us now come to the question of production aspect. This approach while pointing towards the correct nature of surplus labour particularly in agriculture does not focus on the mechanism by which this surplus labour can be absorbed or removed from the respective farms. Such withdrawal of surplus labour from the farms being highly hypothetical, one really cannot rely on this approach to measure disguised unemployment. Rather, in this case too, with an excess supply of labour on the farm, the wage rate will normally be diminished which will therefore be a pointer to the extent of excess supply or surplus labour on the farm.

The question that then arises is what is the criterion for identifying disguised unemployment? Robinson suggests that people who are disguised unemployed have a low productivity as compared to that of the "general run of industries". Since, the real wage rate is a rising function of labour productivity, disguised unemployed workers must earn a lower wage than what normally prevails in the economy. Let us assume that initially, since unemployment prevails in the economy, real wage rate in the economy is at a level w^* . Now, if it is the case that with time, the proportion of people who are earning less than w^* increases then clearly more people are being pushed towards lower productivity jobs, denoting that jobs are reduced in the "general run of industries" and the workers have to crowd in low productive jobs to share whatever business comes

their way. In this case then, according to the criteria of Mrs. Robinson, disguised unemployment has increased in the economy.

Now, the question is how to measure this disguised unemployment? In the real economy, if disguised unemployed according to the definition of Robinson increases, this will manifest itself as a decline in the overall level of wages. On the other hand, the existence of substantial unemployment results in a weakening of the bargaining power of the workers in general. As a result, even those workers who are employed, in Robinson's sense, will experience a decline in their wage rates. As a result empirically it becomes difficult to identify the disguised unemployed in an economy. However, with time if there is an increase in the proportion of people below a particular wage rate w^* , then this must denote an increase in disguised unemployment, since for this given wage rate, more people will be forced to take up low productivity jobs than what normally prevails in the economy.

Based on this conceptualization of employment let us take a re-look at the question of employment in India.

In order to see the change in the proportion of people who are earning less than a particular wage w^* , we have computed the cumulative distribution graph for the wages of the respective categories from the unit level data of the NSS 55th round (1999-2000) and 61st round (2004-05) for the age group 15-59. Any point on this graph gives us the proportion of the population which is below a particular wage level. For the sake of comparison, we consider the national minimum wage of Rs 66 in 2004-05 as the benchmark wage rate. We convert all wages into 1999-2000 prices and take as the bench mark Rs 66 per day as the requisite minimum wage and calculate its equivalent value in 1999-2000 prices.

In all the graphs given in the Appendix, the variables, `dist_55` and `dist_61` denote the cumulative density of wages for the 55th and 61st round respectively. `daily_wage` or `wage_55` denotes the wage in the 55th round (1999-2000) while `wage_99` represents the wage received in the 61st round (2004-05) in 1999-2000 prices. The vertical line denotes the equivalent of the minimum wage (of Rs 66 per day in 2004-05) in 1999-2000 prices, which comes out to be Rs 59.4 per day, deflated by the CPI(A-L).

First, we look at the wages received by the casual workers by

sector and gender, the graphs for which are shown in Figures - 1, 2, 3 & 4 in the Appendix.

From the graphs it is seen that the two cumulative distribution graphs for the wages received in 1999-2000 and 2004-05 are practically the same, indicating that the proportion of casual workers who were below a particular level of wages have remained there. For example, for rural female casual workers, for both the periods, 1999-2000 and 2004-05, the proportion of the workers receiving less than the minimum wage is around 95%. For rural males there has been a slight improvement, where the proportion of workers receiving less than the minimum wage has decreased from 80% to 78%. For urban female casual workers, the proportion of the workers receiving less than the minimum wage has increased. In case of urban male casual workers, it has remained the same around 60%. In other words, the growth process of the economy has not resulted in any shift of the casual workers from low wage to high wage jobs.

Regular Salaried Workers

It can be expected that given an increase in the earnings of the regular/salaried workers, the proportion of people who were getting more than the stipulated minimum wage should increase in the economy. However, contrary to our expectations, the actual situation turns out to be exactly the opposite, i.e., there has been an increase in the proportion of people who are getting a wage which is less than the stipulated minimum wage. This is evident from the Figures 5, 6, 7, 8 in the Appendix, where the cumulative distribution graphs of all categories of regular workers for the year 2004-05 lies above that of 1999-2000 signifying a worsening of the proportion.

It is seen from these graphs that for majority of the workers, the proportion of people below the minimum wage has increased. In case of regular workers, this has been the case for all categories. In case of casual workers, the proportion has not changed much. The reason for this probably is that for all practical purposes the wages of the casual workers are at the minimum subsistence level. Therefore, too many people cannot be pushed below a particular wage level. Taking into account both the casual as well as the regular workers, it can be said that this worsening of the condition of the workers has been despite the fact that the economy in this

period registered high growth. In other words, the employment generated in India has resulted in a worsening of condition for the majority of the people, even when the economy is growing at a higher rate.

The above analysis not only represents a worsening condition of the workers but points to a deeper issue. The existence of large scale unemployment in the economy has depressed the wage rates of the workers. But along with this, there has been a relative reduction in gainful employment opportunities, signified by a pushing down of a larger proportion of the work-force below the stipulated minimum wage rate. This represents a situation where productive jobs are declining for a large section of the work-force who are forced to take up low productive jobs signified by lower wages. A large part of the jobs that are therefore generated for the majority of the people essentially represents underemployment or disguised unemployment.

This is not to argue that there are no productive jobs available in the economy. On the contrary the labour productivity in India has increased by a significant amount, a point which has been noted by the Planning Commission. What has happened is that this increase in productivity has not been matched with a increase in the real wage rate. This is because the increase in productivity has resulted in the decline in the growth rate of employment, increasing unemployment, which has forced a large section of the population to eke out their living by engaging in low productive jobs.

4.2.4 Sectoral Aspects of Employment in India

We have already seen that the employment problem in India is one where more and more people are forced to take up low productive jobs because of a lack of meaningful employment opportunities. This process has accompanied the process of reform implemented in India since 1991. If the employment generation in India is primarily of low productivity variety, which sectors are generating employment in the economy? The following table shows the employment in different sectors of the economy.

Table 12: Employment by Industry: Percentage of Employment According to Usual Status

	1993-94	1999-2000	2004-05
Agriculture			
Rural Male	74.1	71.4	66.5
Rural Female	86.2	85.4	83.3
Urban Male	9	6.6	6.1
Urban Female	24.7	17.7	18.1
Manufacturing			
Rural Male	7	7.3	7.9
Rural Female	7	7.6	8.4
Urban Male	23.5	22.4	23.5
Urban Female	24.1	24	28.2
Construction			
Rural Male	3.2	4.5	6.8
Rural Female	0.9	1.1	1.5
Urban Male	6.9	8.7	9.2
Urban Female	4.1	4.8	3.8
Trade Hotels & Restaurants			
Rural Male	5.5	6.8	8.3
Rural Female	2.1	2	2.5
Urban Male	21.9	29.4	28
Urban Female	10	16.9	12.2
Transport, Storage & Communications			
Rural Male	2.2	3.2	3.9
Rural Female	0.1	0.1	2
Urban Male	9.7	10.4	10.7
Urban Female	1.3	1.8	1.4

Source: NSS report Employment and Unemployment Situation in India, 2004-05, Report No. 515 (61/10/1) Statement 5.9

From the above table it is evident that a majority of the workers in India are employed in agriculture. The other important components of employment in India are the Manufacturing sector and the Other

Services sector. However, the percentage of population employed in agriculture continues to be very high. This signifies that the growth process in the Indian economy has not been able to shift the workforce from agriculture to other more productive sectors, to a significant extent.

Let us now look at the sectoral growth rates of employment.

Table 13: Growth Rate of Employment in Different Sectors, In India

	1993-94 to 1999-2000	1999-2000 to 2004-05
Agricultural employment	0.03	0.83
Secondary Employment	2.91	4.64
Tertiary Employment	2.27	4.67

Source: Chandrasekhar and Ghosh (2006b)

The table shows that there has been an increase in all the growth rates. Particularly, the increase in the employment growth rates in the Secondary and Tertiary sectors are quite high, with the agricultural sector lagging behind and dragging down the overall growth rate.

This increase in the growth rate of employment in the secondary and tertiary sectors should represent a positive development of the Indian economy, where gainful employment is getting generated in the more productive sectors of manufacturing and services. However, a more detailed study is essential to prove this.

As has been already shown, while the proportion of the casual workers below the minimum wage has not increased substantially, there has been an increase in this proportion for all categories of regular/salaried workers. This suggests that the conditions of the workers as a whole have worsened even at a time when the overall growth rate of employment has, by conventional estimates, increased. Now, the growth rate of employment in agriculture has been extremely low. Therefore, the increase in employment in the Indian economy must have taken place in the manufacturing and the services sector, as has been shown in the above table.

We have already assumed that the Rs 66 national minimum wage rate is the minimum wage rate for the economy. Now, given that more workers in the casual and regular categories have been pushed below a subsistence wage in the period 1999-2000 to 2004-05, this

supposed increase in employment must surely be accompanied by a worsening of the conditions of the workers, in different sectors of the economy. This is evident from the Figures 9-14 in the Appendix. The Figures show the cumulative distribution functions of the wages of workers in the age group 15-59 years in different sectors of the economy for urban and rural areas.

In these figures, the following notations are used:

dist_pri_55 = cumulative distribution of wages in the primary sector in the 55th round of NSS

dist_pri_61 = cumulative distribution of wages in the primary sector in the 61st round of NSS

dist_55 = cumulative distribution of wages in secondary/tertiary sector in 55th round of NSS

dist_61 = cumulative distribution of wages in secondary/tertiary sector in 61st round of NSS

wage_pri_55 = daily wage in the primary sector in the 55th round of NSS

wage_pri_61_99 = daily wage in the primary sector in the 61st round of NSS converted into 1999 - 2000 prices.

wage_sec_55 = daily wage in the secondary sector in the 55th round of NSS

wage_sec_61_99 = daily wage in the secondary sector in the 61st round of NSS converted into 1999 - 2000 prices.

wage_ter_55 = daily wage in the tertiary sector in the 55th round of NSS

wage_ter_61_99 = daily wage in the tertiary sector in the 61st round of NSS converted into 1999 - 2000 prices.

From these figures (9 and 10 in Appendix) it is seen that a very high proportion of the workers engaged in the primary sector, particularly in the rural areas earns less than the stipulated minimum wage of Rs 66 per day. In the rural areas, the proportion of workers getting wages below our benchmark wage (Rs 66 per day nominal minimum, in 2004-05 converted into 1999-2000 prices), has slightly reduced, as shown in the first graph. In the urban areas the two cumulative distribution graphs have practically coincided, thereby implying no change in the situation of the workers.

The situation in the secondary and tertiary sector employment is however different, as is evident from the Figures (11 - 14):

From these figures it is obvious that the employment in the secondary and tertiary sectors of the Indian economy has pushed more and more people below the minimum wage requirement. Therefore, far from showing a Lewisian transformation, the Indian economy is basically generating low wage employment even in the so called dynamic sectors of the economy, while the self-employed workers are getting an income which is below what they perceive as being remunerative.

From the above discussion it is evident that the process of high growth in India has been accompanied by worsening of employment conditions and lowering of real wages in the Indian economy. In other words, even with a high rate of growth, Lewisian transformation has not taken place in India.

Conclusion

Persistence of unemployment under capitalism has been both a theoretical as well as historical feature of the system. This problem of capitalism basically lies outside the domain of neo-classical economics, which assumes full-employment. However, if capitalism is characterised as a demand constrained system, then it is not only the case that unemployment exists under capitalism but there exists no spontaneous mechanism in the system to arrest any tendency towards rising unemployment or labour shortage. Even then, the fact that capitalism did not witness any rising unemployment or labour shortage, was because of its interactions with its colonies (developing countries of today). This interaction in turn resulted in the retarded production structure and existence of massive labour reserves in the colonies.

It can be argued that with decolonization, this pattern has become redundant. What is necessary for the developing countries is to have a high growth rate, which, some suggest, will automatically take care of the problem of unemployment. The analysis of employment in India shows that this is not necessarily the case, where there has been deterioration in the employment conditions and wage rate for majority of the workers, even when the economy was growing at a fast pace.

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