

Fighting Unemployment—A Symposium

No Surrender, Press on with the Plan

(By A Hard Hearted Planner)

THE economic scene is rather confusing at the moment. Two years ago when the first Five-Year Plan was ushered in the general expectation and hope was that the country had begun the long trek on the road to prosperity and wealth. The hope seemed to be partially justified when schemes like Sindri and Bokaro were completed. But suddenly we find that unemployment has reared its ugly head and has alarmed quite a few that it may assume vast proportions. Had it been unemployment alone one could have thought of measures to curb it and begun applying them straight-away. But other factors seem to be moving in a bewildering fashion. Prices, for example, of most commodities which enter into the Economic Adviser's Wholesale Price Index have been rising steadily during the past few months reversing the downward trend which began in November 1951 and became more pronounced after March 1952. This is happening in spite of a tight credit policy which was supposed to have been one of the factors responsible for the crash in March 1952. Side-by-side we have industrial production registering impressive increases every month. This has quite confused those who see in unemployment the signs of a depression and the total wrecking of the planned increases in investment.

Let us start with unemployment. What is the nature and extent of unemployment which has caught the attention of businessmen, politicians and opinion pollsters? Is it something which did not exist, say, some three months ago, and which is now something like a tidal wave? This does not appear to be the case if we look at it carefully. What seems to have happened is that recent additions to a long-standing malady have been more vocal and dramatic than those before.

There is little information about the extent and nature of unemployment except for increased registrations at Employment Exchanges. The latter can indicate only the symptoms, assuming, *crease*, that the former unemployed have not developed a sudden propensity to go and register themselves at the Ex-

changes. Generally, however, the unemployed can be classified in four ways.' Firstly, of course, there is the hard core of unemployment (or disguised unemployment) which springs from unbalance between population and resources. This is a long-run phenomenon and very little has happened in the past few years to change it. It is generally seen in a dozen men trying to do a piece of work which really needs one or two; only we had forgotten all about it during all these years of inflationary prosperity. It certainly cannot have assumed alarming proportions during the last few months. To tin's hard core there seem to have been additions in the recent past which are due to the changing economic situation. These new unemployed, if one may call them so, seem to have succeeded in coming to limelight and drawing the public's attention.

One such group is the increasing number of the educated line-employed. The reasons for such an increase seems to be large scale retrenchment due to a policy of de-control and the failure of Government to expand at the same pace as before. Similarly, openings in business also seem to be fewer directly because of the changed circumstances in which business has to operate. The change over from a seller's market to a buyer's market, the increasing uncertainty of outlook in place of the former unbridled optimism and the increasing attention paid to costs as a factor affecting profits, have all made for fewer employment opportunities in business. Even here one wonders whether matters have taken a sudden turn for the worse. These tendencies must have been apparent quite some time ago. Pointed attention seems to have been drawn to them only because they now appear in conjunction with other factors. Again, it is not that those who had jobs before are now laid off; but that new additions to the working force are not able to find employment. It is basically a long-run problem rather than a temporary one.

The second source which swells the ranks of the unemployed are the

cottage and small-scale industries. The plight of handloom weavers is too well known to bear repetition. Similarly, the coir industry, carpet and druggist manufactures and other industries which catered largely to markets outside India, have been laying off employees for quite some time. The main factor responsible seems to be the declining demand for their products in foreign markets.

These two sources of unemployment are fairly clear. A third factor can also be held responsible for adding to unemployment. It is a well-known fact that a disproportionately large number of people are engaged in trading in this country. During the inflationary conditions of war and post-war years, price resistance was weak and any one with a little capital could become an intermediary and tag on his own small profit margin to the price of the product as it passed to the consumer. With the return of the buyers' market and increasing resistance to prices, the profit margin became smaller and many of the unimportant intermediaries were forced out of business. They had perforce to seek employment. It must be remembered that the kind of person who is unemployed is the small commission agent, the import-export businessman with a printed letter-head and a typewriter and not the small shopkeeper. It is doubtful if the latter is forced out of business. For he combines both money-lending and distribution proper in his trading operations and so long as there are people who always run into debt he can manage to make the small income with which he is satisfied.

Should this unemployment not have had repercussions on other factors in the economy? Unemployment on the part of those who were earning a little while ago would mean lower aggregate money income and decreased consumer spending. This in turn should have affected the output of consumer goods industries and prices should have displayed some tendency to decline. The initial decline in money incomes should have had a multiplicative effect and a certain uneasiness should pervade the economy. Do prices

* See also "Scrap The Plan" and "UP Cottage Industries in Distress" on pages 913 and 917, respectively.

and production in fact show any of these effects?

Prices do not display any downward tendency whatever. On the contrary the Economic Adviser's Wholesale Price Index has been rising continuously from December 1952. The rise has been substantial, about 9 per cent over the index in December. Group-wise, increases in prices have been substantial for food articles, industrial raw materials, semi-manufactures and miscellaneous commodities; manufactures have shown little rise. Even the small increase registered by the latter is mainly clue to the price of jute manufactures going up. Commodity-wise we find the prices of rice, wheat, bajra and jowar going up. Among industrial raw materials the prices of groundnut and linseed are rising steeply; jute also is registering substantial increases. Among semi-manufactures, only the oils are showing a substantial increase. In the case of manufactures, except for jute, all other prices are more or less steady. Among the miscellaneous commodities Vanaspati prices are shooting up again.

Some of these increases can easily be explained. In the case of groundnut and linseed a short crop and persistent demand from manufacturers of Vanaspati and oil have raised the prices. The oilseeds market has always been speculative and the slightest sign of a strain sends prices shooting up. This increase in the price of the raw material explains why the price of groundnut oil and Vanaspati are going up. In the case of raw jute again, the expectation of a smaller crop is responsible for the rise in prices. This coupled with increasing number of inquiries from foreign markets is responsible for the increase in the price of jute manufactures.

It is, however, difficult to explain the rise in the prices of food-crops. An estimated shortage cannot be responsible because most of the forecasts indicate a larger crop. Nor can the rise be considered temporary as it has lasted well over six months. Since the index reflects prices in a few selected places, one wonders if some special circumstance applicable to those centres only has been projected on to the Indian scene. Prices in other centres will have to be examined before one can accept a price rise which is apparent without any cause.

So much for prices. If we turn to industrial production we find the same story. Every industry has been recording impressive increases in output. The general index of

industrial production has moved up from 135 in November 1952 to 141 in April 1953. Industry-wise, consumer goods industries except sugar have continued to expand their output; also some of the basic industries such as coal, iron and steel, cement, chemicals, etc, have shown sizeable increases. On the other hand, industries producing capital goods, eg, diesel engines, machine tools, electric motors, etc, have either shown decline or at any rate showed no improvement.

One can see a pattern even in this welter of confusion. The movement of the prices of commercial crops and the prices of those products whose raw materials they are, depend upon international factors. A rise of price abroad has the effect of raising prices steeply. This is true of all under-developed economies which export industrial raw materials. Speculation and foreign demand determine the course of internal prices and internal activity does not have proportionately the same influence.

If we look at industrial production, we find the output of consumers' goods and basic commodities going up. The latter seems to be natural enough in view of the development plans that are being fulfilled. With steady and almost limitless demand facing them from the various schemes, they cannot but expand. The rise in consumer goods production appears to be more intriguing. With rising unemployment it should have been the first to be affected. It has not been. Nor has it a large export market. As a matter of fact, the export market for products like cotton textiles has been shrinking since 1951-52 and there is a good deal of uncertainty at the present moment about foreign demand. In such circumstances it cannot be maintained

that consumer goods production is increasing because of external demand. This coupled with the fact that unemployment in cottage and small-scale industries is increasing makes one suspect that production in organised industries is increasing at their expense. The demand of people like Rajaji that a certain portion of the market be reserved for small-scale producers seems to point to the same conclusion. During the inflationary days when aggregate demand was very large both of them could exist together. Now with a smaller market it is one or the other.

If this is true, we come to a very interesting conclusion which may well be heartening. This is exactly what happens when a country begins economic development. The first step is a displacement of men by machines and a lowering of costs. Unemployment is the price that has to be paid by a country which is not developing rapidly enough. Similarly, the unemployment of the middle class and the small trader also point to the same thing. That is, that their unemployment, which is really the result of imbalance of resources and men, was concealed by inflationary conditions. Now that those conditions have disappeared, it is once again revealed in its true colours.

This would indicate that any haphazard policy for the abolition of unemployment will not do since it is basic unemployment; only long-run development will remove it. But in the long run we are all dead and the unemployed more quickly so; and extremely vocal sections of society are involved in the predicament. What is to be avoided is a weakening before this onslaught and abandoning half-way the capital-intensive schemes of the First Five-Year Plan.

Step Up Investment — Expand Credit

(By A Liquidity Merchant)

THIS is an attempt to analyse the nature of present unemployment in the country and its possible causes. The analysis is cursory and superficial. But one doubts whether anything better is possible with the available statistics.

The problem does not seem to be so acute in the organised large-scale industries such as steel, cement and cotton textiles. The middle and small-sized industrial enterprises account for the largest portion of unemployment. It would be helpful

to break up this group into the following categories:

- (a) Consumer goods and goods in progress,
- (b) Producer goods, and
- (c) Distributive trades.

The more obvious item in the first category is the handloom industry where the size of unemployment is indicated by the unintended increase in inventories. The position is no better with regard to small power looms, since quite a few of them have closed down. Similar