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Economic Depression And Employment In Globalized Era, With Special Reference To India

[1] **Dr. R.K. Tripathi**
[1]Head & Associate Professor, Department of Political Science, D.B.S. College, Kanpur

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Abstract

Economic depression is a down turn of substantial proportions in the economy of a nation that may last for year. Typically during economic depression the Gross Domestic Product (GDP) falls and unemployment rises. During economic depression business find it difficult to make profits compelling them to reduce salaries and staff. This causes unemployment to rise. Defaults in loan repayment become common lending to increasing home repossession many flow comes down. Economic depression also witnesses crises in commerce, industry and finance with step fall in prices, credit squeeze, low productivity, vanishing investment and increasing bankruptcies. With the collapse of Lehman Brothers and other Wall Street icons; there was growing recession which affected the U.S., the European Union (EU) and Japan. This was the result of large scale defaults in the US housing market as the bank went on providing risky loans without adequate security and the repaying capacity of borrower. The principle source of transmission of the crisis has been the real sector, generally referred to as the 'Main Street'. This crisis engulfed the united state in the form of creeping recession and this worsened the situation. As consequence US demand for important from other countries indicated a decline.

Keywords- Economic Depression, Employment In Globalized Era, Special Reference To India

The basic cause of the crisis was largely an unregulated environment, mortgage lending to sub prime borrowers. Since the borrowers did not have adequate repaying capacity and also because sub prime borrowing had to pay two to three percentage points higher rate of interest and they have a history of default, the situation became worse. But once the housing market collapsed, the lender institutions saw their balance sheets go into red.

Although at one time it was thought this crisis would not affect the Indian economy, later it was found that the Foreign Direct Investment (FDI) started drying up and this affected investment in the Indian Economy. It was; therefore, felt that the Indian Economy will grow at about seven percent in

2008-09 and at six percent in 2009-10. The lesson of this experience is that Indian must exercise caution while liberalizing its financial sector. A redeeming feature of the current crisis is that its magnitude is much less than that of Great Depression of the 1930's when unemployment rate in the United State exceeded 25 per cent. Currently, it stands at 6.5 per cent and was predicted to remain around eight percent in 2009.

The key questions confronting the economy now is the backwash effects of the American (or global) financial crisis. Central banks in several countries including India have moved quickly to improve liquidity, and the finance minister has warned that there could be some impact on credit availability. The implies more expensive credit. (Even public sector banks are said to be raising money at 11.5 per cent, so that lending rates have to head for 16 per cent and higher. When one thinks about it isn't unreasonable when inflation is running at 12 percent). For those looking to raise capital, the alternative of funding through fresh equity is not cheap either, since Stock Valuations have suffered in the wake of the FII Pull Out. In short capital has suddenly become more expensive than a few months ago and in many cases, it may not be available at all.

The big risk is possible repeat of what happened in 1996. Projects that are half way to completion or companies that are stuck with cash flow issues on business that are yet to reach break even, will run out of cash. This time could be real estate, where the country and some developers who touted their land banks find now that these may not be bankable.

The only way out of the mess is for builders to drop prices, which had reached unrealistic levels and assumed the characteristics of a property bubble, so as to bring buyers back into the market, but there is not enough evidence of that happening.

The question meanwhile is who else is frozen in the sudden glare of the headlights? The answer could be consumers may of whom are already quite leveraged. More expensive money means that floating rate loans begin to bite even more, even those not caught is such a pincer will decide that purchases of durables and cars are not desperately urgent. And it is not just the impact of those caught on the margin that must be considered. The drop in real estate and stock prices robs a much larger body of consumers of the wealth effects, which could affect spending on broader front. In short, the second round effects of the financial crisis will be felt straight-a-way in the credit driven activities and sector but will spread beyond that in a perhaps slow wave that could take a year or more to die down. One danger meanwhile is a of a dip in the employment market. There is already anecdotal evidence of this in the IT and financial sectors, and reports of quiet downsizing in many other fields as companies cut costs. More that the downsizing it self, which may not involve large numbers, What this implies is a significant drop in new hiring and that will change the complexion of the job markets.

The industries most affected by weakening demand were Airlines, Hotels, Real estate. Besides this Indian exports suffered a set back and there was a set back in the production of export oriented sectors. The Government advised the sectors of weakening demand to reduce prices. It provided some relief by cutting down excise duties, but such simplistic solutions were deemed to failure. Weakening demand let to producers cutting production. To reduce the impact of the crisis, firms reduced their work force to reduce costs. This led to increase in unemployment but the total impact on the economy was not very large. Industrial production and manufacturing output declined to five percent in the last quarter of 2008-09, consequently, a vicious cycle of weak demand and falling output developed in the Indian economy.

A weakening of demand in the US affected our IT and business process outsourcing (BPO) sector and the loss of opportunities for young persons seeking employment at lucrative salaries abroad. Indian's famour IT sector, which earned about $ 50 billion as annual revenue is expected to fall by 50 per cent of its total revenues. This would reduce the cushion to set off the deficit in balance of trade and thus enlarge our balance of payments deficit. It has now been estimate hat sluggish demand for exports would result in a loss of 10 million jobs in the export sector alone.

The impact of global slowdown of India's economy is impacting the employment scenario in India. In fact the rising joblessness in India has assumed worrisome proportions with overall economic growths sharply slowing down; the ranks of those without work are growing by the day. Five hundred thousand people were rendered jobless in October and December 2008. According to first of kind survey conducted by Ministry of Labor and employment with the global slump, the fortunes of those who work in the export industry have become equally bleak. India could lose upto 1.5 million jobs in this sector in six months to March 2009. The labor ministry's numbers are based on survey of 2581 units covering 20 centres across 11 states. Eight major sectors like the textiles and garment industry, metals and metal products, information technology and business process outsourcing, automobiles, Games and jewellery, transportation, construction and mining industries were included. The total employment in these sectors had come down from 16.2 million in September 2008 to 15.7 million by December 2008 due to the reword stalking Indian industry. India's export too, have been contracting every month since October 2008 due to falling demand in the US; and Europe. Many units have downed their shutters and laid of staff. If these projections continue, it is quite likely that one can expect another 500,000 job looses before March 31 stated G.K. Pillai, Commerce Secretary, after announcing earlier that 1 million job had gone since August. Interestingly, more up-to-date economy wide estimates of unemployment base on extrapolations from recent trends are consistent with the above numbers for job looses this year as growth is likely to decline to 7 per cent as compared to 8.8 per cent per annum during the last five years. Buy with India's growth expected to plunge to 5 percent next year, the indigence of joblessness will be more severe than before.

A disturbing trend of India's economic performance is a declaration in employment growth to 1.92 percent per annum from 1993-94 to 2000-07 from product (GDP) was rapid. Clearly there has been a decline in employment per unit of GDP growth or employment elasticity to 0.28 from 1993-94 to 2006-07 from 0.52 over the years 1983-1993-94. Applying this elasticity to the like GDP growth of 7 per cent in 2008-09 and 5 percent in 2009-10 to project the generation of employment provides an over age of 8 million work opportunities this year and 6 million the next. This is much short of the 10 million opportunities generated during each of the last five years. In other words, there will be 2 million fewer jobs than before this year and 4 million fewer jobs next year.

Official number crunches might suggested that a better measure is to focus only on non-agriculture. Even on this basis, the economy would turn out 1 million fewer non-agricultural opportunities this year 2 million fewer the next than the average of 5.6 million jobs per annum during the growth boom of the last five years. This striking shrinkage of employment opportunities when 9 to 10 million people join the labor force each year looking for work will certainly result in a spine upwards in employment and exacerbate social tensions.

Impact of the global financial crisis will be diminished market overseas, as a result of the revival of protectionism. Similarly there will be reduced prospects for attracting investment in flows from major capitals – exporting countries. The cumulative effect of all these phenomena will be destruction of employment and rise in poverty within Indian itself.

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