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Research Article

Macroeconomic Determinants of Employment: The Role of Economic Growth and Money Supply

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Abstract

Employment generation remains a central challenge for developing economies like India, particularly in the context of sustaining long-term economic growth. This study examines the relationship between employment, economic growth (GDP), and money supply in India using a macroeconomic perspective. Drawing on time-series data spanning several decades, the paper analyses trends and growth patterns of GDP, money supply, and employment to understand their interlinkages. The study finds a strong positive relationship between GDP growth and employment generation, indicating that economic growth plays an active role in creating employment opportunities. In contrast, money supply is found to have no significant direct impact on employment, supporting the neutrality hypothesis of monetary variables with respect to employment. Sectoral analysis further reveals that while the service sector contributes significantly to GDP, it generates limited employment for unskilled labour, whereas manufacturing and agriculture remain crucial for broad-based employment creation. The findings suggest that policy efforts should prioritise GDP-driven growth strategies, strengthen manufacturing and agriculture, and promote skill development programmes to address unemployment effectively in India.

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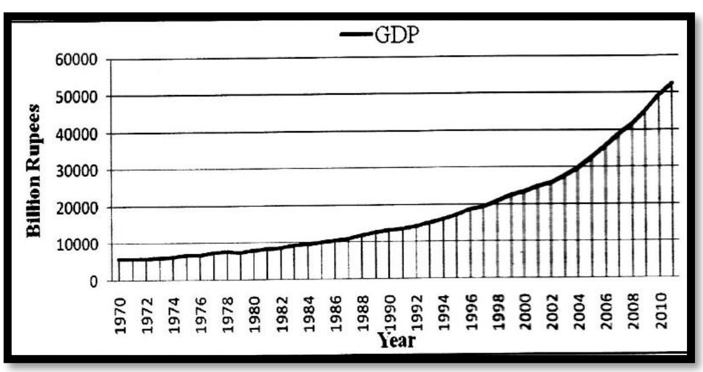
INTRODUCTION

The Sustainable level of economic growth and development and to maintain at this level. To achieve this objective unemployment has been considered as one of the most important economic problems in recent times. Relationship between employment, GDP and money supply is one of the most attentive issues of interest for economists, researcher
s and policy makers. This is just because a proper understanding of the relationship between these macroeconomic variables is of crucial importance, especially for the policymakers in ensuring macro-economic stabilization policies can be designed and implemented effectively. Although economic theory suggests the mechanism through which these variables could influence each other, the issue has been a subject of considerable debate. This is very crucial to know about the role of GDP and money supply in the determination of employment. The monetarists claim that money plays an active role and leads to changes in employment while the Keynesians argue that money does not play an active role in determining the employment.

India's Economic Growth

Therefore, it is very crucial to understand the determinants of growth for policy framing and also for the macro management. Indian economy had succeeded to break the so-called "Hindu-rate" of growth and moving towards the East Asian nations and even in some cases challenging the G-8 nations. Now India is a leading member among the emerging economics. The most honourable interpretation for this growth experience is the pro-market interpretation of the economic liberalization of nineties. The decadal growth rate in 1990s was around six percent which was significantly higher that the previous decadal economic growth due to economic reforms. Presently, Indian has successfully recovered after the recent global financial crisis though the GDP growth has fallen recently.

Graph 1: Trend of GDP in India



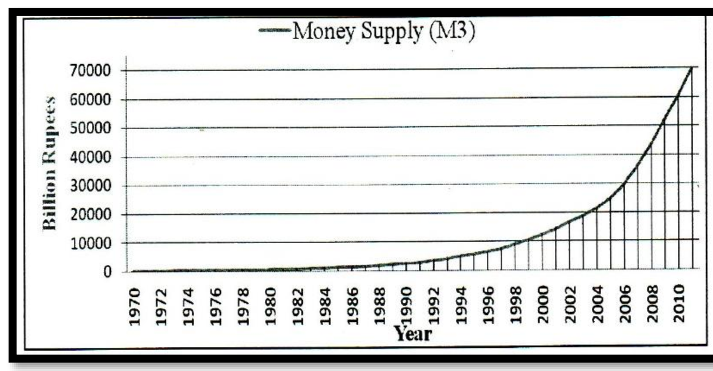
Source: RBI website

The Graph -1 is depicting the increasing tread of GDP in India. The GDP of India in 1970 was around Rs 5,900 billion which increased to Rs 52,000 billion in 2011. In 1979 and 1987 the graph shows some fluctuations in GDP. However, since 2000 onwards GDP increased continuously.

Money Supply in India

The main objective of monetary policy is similar to fiscal policy i.e. to determine the equilibrium of an economy at full-employment level of output, to promote sustainable economic growth and ensure price stability in the economy. Money supply is the most effective tools of monetary policy to attain the economy at full-employment or potential output level by influencing the level of aggregate demand. At the time of recession monetary policy includes the expansionary approach by adopting some monetary tools which tend to increase the money supply and lower interest rates so as to stimulate aggregate demand in the economy. At the time of inflation contractionary monetary policy is used by reducing the supply of money and increasing the rate of interest in the economy. It is worth notable that, in the developing country like India monetary policy role's is not limited only to attain full employment equilibrium level output but it also covers the promotion of economic growth in the economy.

Graph: 2 Time Profile of Money Supply in India



Source: RBI website

The above graph represents the time profile of Money Supply in India from 1970-71 to 2010-11. In 1970, money supply in India was around Rs 103 billion which increased to around Rs 69,000 billion in 2011. From 1970-71 to 1999-00 money supply increases steadily but after 2000-01 it increased rapidly.

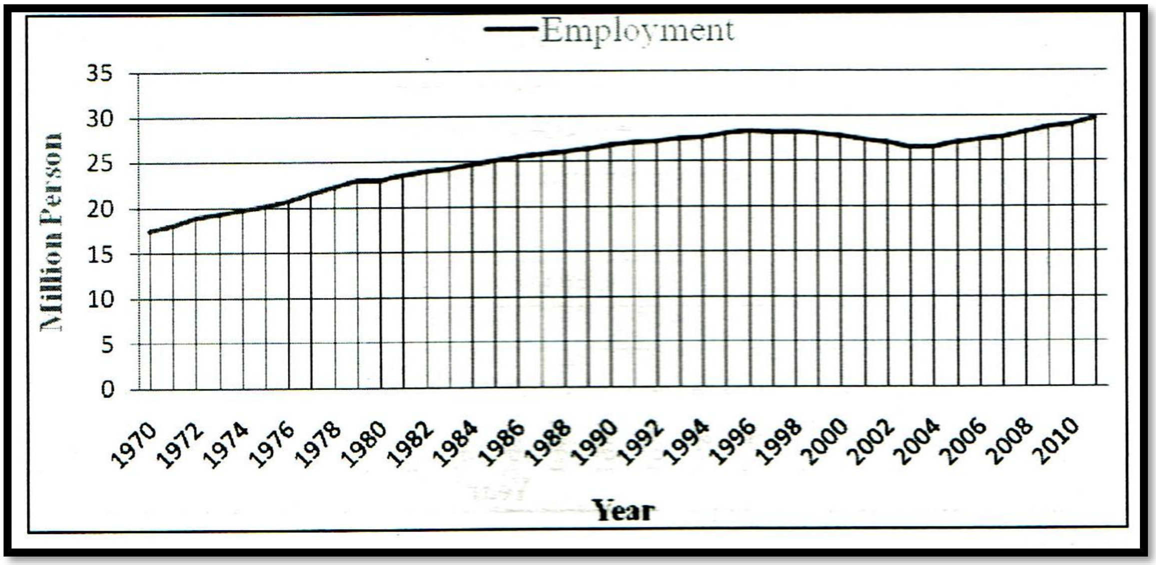
GDP, Money Supply and Employment in India: A Time Profile

Indian economy Employment, GDP and Money Supply play a very important role because of their multidimensional effect. An appropriate approach and understanding regarding the relationship between these variables is of very significant importance, particularly to policymakers in ensuring that effective macro-economic stabilization policies can be designed and implemented.

Employment Growth in India

Employment has a key element of development policy in India. The priority and attention it has received in development plans have, however, varied from time to time and so have the approaches and strategies as well as policies and programmes for employment generation. Employment growth was considered an important factor for the development of planning policies around the middle of the 1970s. The earlier expectations of self-generation of employment in the economy through economic growth and demographic performance had not worked well; therefore, unemployment was having rising trend. As a solution to this problem, development policies were made, more employment-oriented by enhancing the growth of employment-intensive sectors. This approach was continued over the next one and a half years.

Graph-3: Time Profile of Employment in India

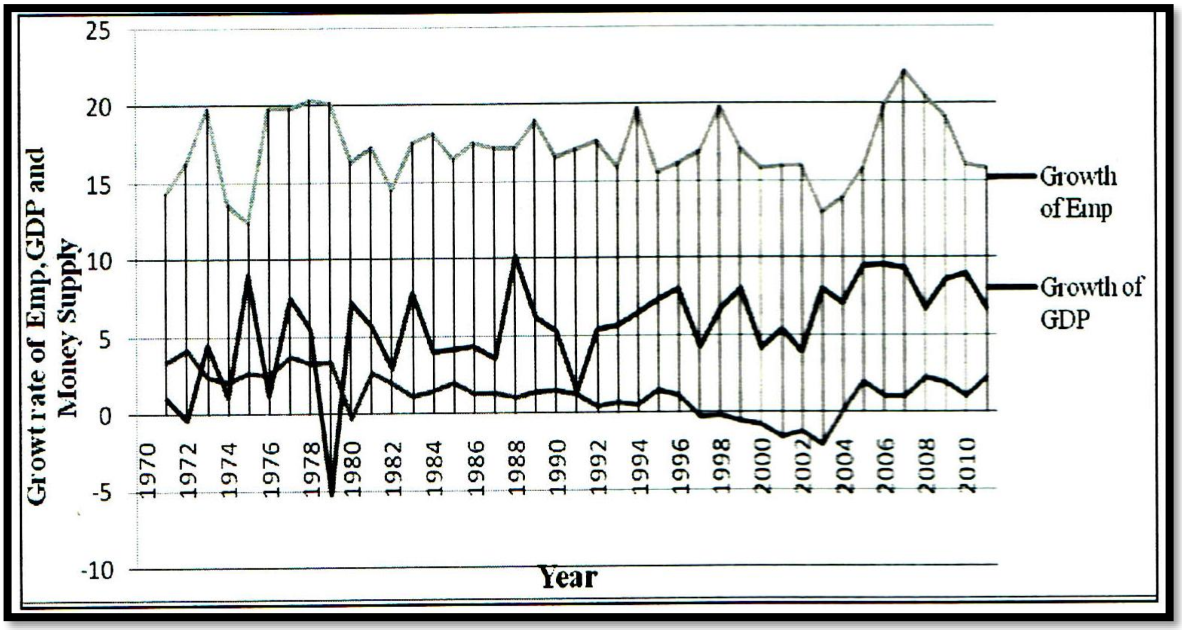


Source: Ministry of Statistics and Programme

Implementation (MOSP) website

The graph 3 shows the time profile of employment in India. The numbers of employed persons were 17 million in 1970 and since then it shows an increasing trend till 1996. From 1997 The downfall has started with the total number of employees reached to 28 million and this downfall continued till 2004, and the level of employment reached at 26 million persons.

Graph 4: Trends in Growth Rates of Employment, GDP and Money Supply in India



Source: Author's Complication

The above graph shows the trends in the growth rates of employment, GDP and money supply. It is very clear that since 1970 to 1979 growth rate of employment was positive having minor fluctuations. But in 1980 it falls down sharply. The growth rate of employment during 1980s was moderately about three percent. From 1981 to 1996 growth rate of employment is in downward direction and became zero in 1997. This downward trend continues till 2003 with negative growth of employment. In 2004 there is zero growth rates and since 2005 economy attain a positive growth rate of employment with little bit fluctuations.

This graph also depicts the trend of GDP growth rate. During 1971 to 1978 there is positive GDP growth rate but in 1979 it eventually declines and became negative and in 1980 again it achieved a positive phase. The period 1988 is the year when highest rate of economic growth was achieved. Since 2003 to 2011 economic growth reflects almost a constant rate of growth at approximately 9 percent.

This Section presents literature on the relationship between employment, GDP and money supply. There are large numbers of studies on this aspect; here some of the important studies have been reviewed.

Mohammad Lashkary and Behzad HassannezhadKashani (2011), analyse the impact of monetary variables on economics growth in Iran. He investigated the neutrality or non-neutrality of the money during the period 1959 to 2008 in Iran. He found that there is no considerable relationship between the monetary variable money supply and real economic variables, production and employment and monetary policies are neutral in Iran. The gross domestic product in Iran does not vary intensively except in recent years and it has a normal direction. However, the unemployment rate fluctuates largely which is not natural.

Ashima Goyal (2012) in her study she found that after independence Indian monetary policy supported government investment but it is very hard to sustain government consumption and transfers, with maintaining inflation at low level. According to her if government changes the composition of its expenditure towards supporting human capacity, monetary policy will be able to support this active inclusion.

Sreelata Biswas and Anup Kumar Saha (2014) estimated the short run as well as long run macroeconomic determinants of the economic growth in India. For this estimation he used co-intergation test and vector error correction (VEC) model for the data from the period 1980-81 to 2010-211 and found that there is a stable long run relationship between GDP and its determinants. There results favoured that gross domestic capital formation, employment, export, foreign direct investment and money supply positively influence the India's GDP growth while inflation and fiscal deficit influence negatively.

Aradhna Aggarwal (2014) tried to develop new insights into the relationship between employment and economic growth in India. For this, quantitative analysis was applied for the growth-employment linkages at the aggregate level and by sectors in India and used NSSO data from 1972-73 to 2011-12. In this study he found that labour productivity growth is the crucial factor in the determination of growth per capita in India while employment has very little impact. Total factor productivity influences the GDP growth per capita significantly through economic acceleration. He emphasises acceleration in economic activity and the implementation of a national employment policy.

Dr. V.B. Khandare (2016) tested the role of GDP and FDI in employment generation in India. He tried to find the relationship between GDP and employment and between FDI and employment in India during 2001 to 2012. For this analysis he applied ordinary least square regression method and found that there is positive and direct relationship between FDI and employment and between GDP and employment in India. From his findings he argued that Government and policy makers should adopt stable monetary and fiscal policies in long run to increase GDP and FDI for employment generation in India.

CONCLUSION

The main objective of this study was to examine the impact of GDP and money supply on employment. Interesting results have been found in this analysis, that is, employment and GDP are positively related while money supply does not have significant impact on employment. Therefore, it is the only GDP which plays an active role in employment generation while money supply is neutral. Thus, there is need to emphasize more on GDP growth for the creation of employment in the economy. In India, it is the service sector which contributes largely in GDP and it provides employment only to skilled and technical persons. Secondly, manufacturing sector provides employment for skilled as well as semi-skilled persons but the growth of manufacturing sector is almost stagnant. And lastly agriculture sector generates employment for illiterate and unskilled labourers but presently its share in total GDP is declining. In India there is large number of unemployed person who are uneducated or unskilled, therefore to eradicate the problem of unemployment, growth of manufacturing sector as well as agriculture sector is very crucial. Government should take into account for growth of manufacturing sector in policy framing and there is also need to develop skill and training programmes to enhance the skills so that these unemployed persons can be absorb by service sector.

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