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GLOBAL ECONOMIC MELTDOWN AND ITS IMPACT ON THE LABOUR MARKET OF KERALA

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INTRODUCTION

The world has been going to the worst economic crisis since the Great Depression (1929-1933). Credit is contracting, output is falling, unemployment is increasing, and most asset values are falling. It is likely not only to be a long down turn, but also a deep one. The financial crisis of 2007–2008, frequently referred to as the Global Financial Crisis, the Great Financial Recession, sup-prime crisis and 2008 financial crisis, is considered by many economists, scholars, and policymakers as the worst financial crisis. It resulted in the threat of catastrophic collapse of large financial institutions, the bailout of banks and other businesses by national governments, and downturns in stock markets around the world. In many areas, the housing market also suffered, resulting in evictions, foreclosures and prolonged unemployment. The crisis played a significant role in the failure of key businesses, declines in consumer wealth estimated in trillions of U.S. dollars, and a downturn in economic activity leading to the 2008–2012 global recession and contributing to the European sovereign-debt crisis. The Global economic crisis of 2008 is considered as the worst Global crisis since the world depression of the 1930s.

The active phase of the crisis, which manifested as a liquidity crisis/ crunch, can be dated from August 9, 2007, when BNP Paribas terminated withdrawals from three hedge funds citing "a complete evaporation of liquidity". Recession, as per macroeconomic points of view, is a situation when demand is sluggish, real output is not rising and unemployment is increasing. It is usually identified when real GDP falls for two successive quarters. Depression is a prolonged period of abnormally low economic activity and abnormally high unemployment often accompanied by a tendency of prices to fall. The Global crises fall in the category of Depression. The global economic meltdown, which is being experienced throughout the world at present, started in the US in 2007 with the collapse of leading investment banks, insurance companies and non-banking financial institutions, and the sub-prime mortgage arising due to excessive credit supply, collapse of the real estate, share and commodity markets, negative saving rates in the US economy, huge external borrowings and increase in the public debt of the US.

The current crisis has been precipitated by a failure of America's financial sector, both to manage risk and allocate capital. This time we have a massive set of micro-failures giving rise to a massive macro failure. Not only had the financial sector made bad loans, they had engaged in multi-billion dollar gambles with each other through derivatives, credit default swaps, and a host of new instruments, with such opacity and complexity that the banks couldn't even ascertain their own balance sheets, let alone that of any other bank to whom they might lend. The crisis not only undermined the efficient market hypothesis and created huge market uncertainty, but set the stage for future imbalances.

The crisis was predictable, and predicted by leading economists in 2004-05 (pre-crisis period). For instance, Paul Krugman, U.S. Economist, in his work entitled "The Return of Depression Economics and the Crisis of 2008", Raghuram Govind Rajan, who is best known for predicting the 2008 global financial crisis and currently the Governor of RBI, in his work titled 'Fault Lines: How Hidden Fractures Threaten the World Economy', etc. predicted the global financial crisis and warned the policy makers about the coming crisis and take measures to prevent the mass failure and destruction. To substantiate the arguments, see the U.S. Financial Crisis Inquiry Commission and its findings in January 2011.

The current economic meltdown highlights the intrinsic incapacity of financial markets to distinguish between "speculation" and "enterprise" and to get dominated by the activities of speculators to a point where "enterprise becomes the bubble on a whirlpool of speculation." As a result, the level of employment and output in the economy and hence the livelihoods of millions of people, became dependent on the whims and caprices of a bunch of financial speculators, "a byproduct of the activities of a casino." The developing world is always buffeted by these storms worse than the developed even when the problems originate in the developed world. The fact is that the influential culprits were able to get away with mass recession or depression than less developed or developing countries of the world. What is occurring in world capitalism today is reaffirmation of John Maynard Keynes', the renowned economist, proposition that financial markets, precisely because they get dominated by speculators, function like casinos. Financial crisis, resulting in serve depressions, are inherent to the functioning of this “free market” system which resulted in the process of excessive financialization.

Economic Meltdown and the Global Economy

The answer to Hyman Minsky's question on whether a crisis like the Great Depression can happen again in an unregulated financial economy, proved to be yes. The only reason why it may not reach the dimensions of the Great Depression is that the states have been called into action with rescue packages of unforeseen amounts. Since 2008, growth seemed to have returned slowly, but the events of 2011 brought about fears. World Economic Outlook (2011) projections indicate that global growth will moderate to about 4 percent through 2012, from over 5 percent in 2010. Real GDP in the advanced economies is projected to expand at an economic pace of about 1.5 percent in 2011 and 2 % in 2012.This brings in fears of a contraction.

The following table represents the growth performance of the various economies of the world:

Table I:1: World Economic Outlook (WEO)

Group	2006	2007	2008	2009	2010	2011
World output	5.1	5.2	2.8	-0.7	5.1	4.0
USA	2.8	2.1	-0.3	-3.5	3.0	1.0
Euro Area	2.8	2.7	0.4	-4.3	1.8	1.6
Japan	2.4	2.3	-1.2	-6.3	4.0	-0.5
UK	2.8	2.6	-0.1	-4.9	1.4	1.1
Russia	7.4	8.1	5.6	-7.8	4.0	4.3
China	11.6	13.0	9.0	9.2	10.3	9.5
India	9.8	9.4	7.3	6.8	10.1	7.8
Brazil	3.8	5.7	5.1	0.6	7.5	3.8
Middle East	5.7	6.2	5.4	2.6	4.4	4.0

Source: IMF; ILO projected, 2012

Economic Slowdown and Asian Economies

The global crisis took its toll on the US and Europe leading to a contraction of their output, catastrophic destruction of the financial system, steep fall in the asset values, alarming rise in the level of unemployment and its repercussions disseminated to the rest of the world through the mechanism of "international transmission." It has its roots in the 'United States' mortgage crisis and the financial meltdown, but it has quickly spread to other OECD (Organization of Economic Co operation and Development) countries and to emerging economies including the so-called BRICs (Brazil, Russia, India and China) and eventually to the low-income countries.

Table 1:2: Nominal growth of GDP in selected Asian economies 2002 - 2009

Countries	2002	2003	2004	2005	2006	2007	2008	2009
China	8.62	9.41	9.79	10.59	12.61	14.02	9.66	8.89
Japan	0.27	1.35	2.55	1.51	1.57	1.87	-1.12	-5.13
Korea	6.83	2.78	4.40	4.37	4.92	5.07	1.76	0.40
Malaysia	4.73	4.79	6.68	4.90	4.20	5.55	6.00	-2.91
Hong Kong	3.77	0.96	9.12	8.98	5.17	5.39	-0.16	-0.78

Source: World Bank, World Development Indicators, 2011

Economic crisis can have enormous impact on migration, both short-term and long-term, and direct and indirect. The economic crisis of 1929 and led to a decrease in international migration, and the return of large numbers of internal migrants as employment declined. The ongoing global financial crisis had many casualties including the financial sector debacle, export stagnation and falling oil prices. However, these effects were largely visible in the developed world and the oil-rich regions. Most of the developing world remained relatively insulated from the global crisis mainly due to its poor integration with the global market and also due to the strong regulatory role the governments still imparted in many of the countries. Yet the crisis reached these countries mainly transmitted through its effects on international trade and migration.

Great Financial Recession and Indian Economy

The US financial crisis has had its reverberations on both developed and developing world, through the process of "International transmission." It is not possible to insulate Indian economy completely from what is happening in the financial systems of the world. Effectively speaking, however, the Indian banks and financial institutions have not experienced the kinds of losses and write-downs that even venerable banks and financial institutions have not experienced the kinds of losses and write-downs that even venerable banks and financial institutions in the western world have faced. The relative freedom from the contagion spreading from the global tsunami on the Indian financial system owes much to the wise and judicious policies of our Central Bank (RBI) and the Government of India.

Interestingly, during the Eleventh Five Year Plan, on an average, India marked a distinguished growth rate of eight percentages per annum. Since then, the global slowdown adversely affected the country's growth rate, even if which was minimal when compared to the other developed nations of Europe or America. Though, there were many economic issues in terms of low economic growth rate, low industrial productivity, high twin deficit, high inflation, high rate of imports, etc. till recently, none expect that the situation will worsen as of now. There are people who attribute the present financial crisis to that of the economic slowdown of 1991. The dispute became hot when the growth rate decelerated and the volatility in the foreign exchange rate and its possible impacts on the foreign exchange reserves of the country. A major impact was a fall in the growth rate of the Indian economy by 2.5 per cent in 2008-09.

Table 1:3: External sector and Indian economy

Indicators	2007-08	2008-09
Export growth (US$)	29.0	13.6
Import growth (US$)	35.5	20.7
Current account balance	-1.3	-2.4
Foreign exchange reserves (US$)	309.7	252
Average exchange rate	40.26	45.99

Source: Economic Survey, 2009-10, Finance Ministry, Govt. of India

Financial Crisis and Kerala Economy: An Overview

Kerala is the southernmost state of the Indian Union formed on the 1st of November, 1956, bordered by Arabian Sea and the extensive network of azure backwaters, rivers and streams, boLatest News & Events Demo textasts of an agrarian economy. The state covers an area of 38,863square kilometer. The abundance of water due to the 34 lakes and other small streamlets, innumerable backwaters and water bodies and 49 rain-fed rivers flowing over the terrain of the state and also the adequate annual rainfall of 118 inches received by this state probably facilitates agriculture to a great extent and hence the economy of the state is dominated by agriculture. The most essential or the staple crop is the rice or paddy. About 600 varieties of rice are grown in the sprawling paddy fields of Kerala. In fact the Kuttinad region of the district of Kerala is known as the 'rice bowl of the state' and enjoys a significant status in the production of rice. Next to rice is another very important crop which is known as Tapioca and is cultivated mainly in the drier regions.

Economic Slowdown and Labor Market of Kerala

The liquidity crisis and associated recession currently gripping the global economy have far reaching consequences for the economies of all developing countries, in particular those with a higher degree of integration with the global economy. India is not an exception to this general trend. Kerala, being historically more integrated with the rest of the world, is more susceptible to any external shocks compared to rest of the states in India. This preliminary report has been prepared with a view to assist the state government in understanding the implications of the crisis, so that appropriate policies and programs could be chalked to deal with any adverse situations that may arise. As a State that has long nourished trade and cultural links with the rest of the world, Kerala has already begun to feel the pinch of the ongoing persistent global financial and economic crisis. As world commodity prices continue their downslide and aggregate demand remains depressed in the background of stagnation, rising unemployment and inflation, an economy like that of Kerala, which has a great degree of integration with the global economy, just cannot wish away the financial contagion now circling the world.

The crisis hit the economy of Kerala by creating imbalances in the various sectors of the Kerala economy. The repercussions of these imbalances could watch in the labor market of the state also. The already existing high unemployment worsened in the state due to the crisis. The labor market of Kerala manifested the paradoxical co-existence of unemployment and labor shortage in some sectors like farming, construction field, etc. On the other hand, we can see the excess labor supply in the government sector and other white collar jobs. More clearly, the labor market of Kerala also resembles the hot name of the state, that is, the "Land of Paradox".

The crisis and its slow recovery widened the gap between the labor supply and the labor demand. The adverse impact of the crisis decelerated the employment prospects of the Kerala state. Theoretically, unemployment prevailed in an economy when the supply of labor exceeds the demand for labor, or when there is positive excess supply of labor. In other words, unemployment rates becomes zero when excess supply of labor equals zero and labor shortage disappears when excess demand for labor equals zero. The supply of labor increased during the time of recession on account of many factors such as deceleration in sectors of industry, farming and service. The impact of the economic meltdown on the Kerala economy was via three channels; namely: the trade channel; the financial channel and the confidence channel.

The most rampant effect of the crisis was cuts in salary, stoppage of increments and discontinuance of benefits and perks. This phenomenon was worse in case of middle-income group workers who were engaged in semi-skilled and skilled jobs. Most employees depend on their own arrangements for accommodation and food. Salary cuts ranged from 10-30 percent of the levels in 2007 just before the crisis. However, it is to be kept in mind that prior to the crisis there had been a large rise in the salaries and wages due to the boom in the sector. This is so because the boom had also lifted the expectations of most workers leading to a high spending life style. Many workers stated that the rise in wages during the boom period led to their taking large loans for various purposes. The crisis however led to a situation wherein most workers were in debt traps.

Statement of the Problem

The study is highly significant in terms of both practical and policy making points of view. The study is more important due to the fact that the ongoing crisis and its impacts up on the labor market of Kerala and the imbalances in the supply and demand for the labor, which needed much attention from the part of the government and policy makers. The study may reveal vivid facts like the magnitude of the job market crisis, salary cut, reverse migration, IT sector crisis, etc. are worth undertaking. A detailed study of the problem is felt necessary so that it would help the policy makers at central and state level in chalking out their programs to counter the ill effects of the economic slowdown, the planners in devising their projects and the administrators in implementing various schemes in the state.

Areas of the Study

The study planned to conduct in the state of Kerala. The required data; both primary and secondary; would collect from the various districts of the state. The ongoing recession and the slow recovery adversely affected the labour market of the state. The already existing huge unemployment problem aggravated during the period of economic recession.

Approach and Methodology

The study will be both exploratory and descriptive in nature. The study is mainly an empirical study. It proposes to employ functional forms for analyzing relationship. Scientific methods will be used to collect data from scientifically selected respondents and geographical areas in the state of Kerala. Both random and non-random sampling methods may be used to collect data from the households. The data collected may be supplement by whatever secondary data available from the government and other publications and other records. In addition to the macro assessment of the situation, the study is based on a survey on return migrants in the country of origin who lost their jobs in the countries of destination due to the financial crisis. The statistical tools like Karl Pearson’s co-efficient of correlation, Regression models, etc. will be used suitably.

Objectives of the Study

The main objectives of the Paper are the following:

1) The present paper aims to narrate the financial crisis and trace out major reasons
2) To analyze the impact of the economic meltdown on the global economy
3) To investigate and assess to what extent the financial and economic crisis that hit the global economy in 2007 onwards, impacted the labour market of Kerala state.
4) To point out some suggestions to address the labour volatility or mismatch between labour supply and labour demand in the labour market of the state.

Hypothesis

The study designed two hypotheses; namely:

1) The magnitude of the gap between the supply of labour and the demand for labour is positively related to the economic meltdown.
2) The gulf remittances and the economic slowdown are negatively related.

Universe

Universe includes in certain place of the Kerala state as this study focus on the financial crisis and its impacts on the labour market of state. The researchers spent lot of time to secure reliable information about the topic. The researchers came to the conclusion after compiling information from various sources.

The sample size

The researchers selected two districts among the fourtenn districts of the state of Kerala. Then selected 100 families from these two districts; namely: Thiruvananthapuram and Malappuram on the basis of systematic sampling technique including both random sampling and mapping methods.

Scheme of the Work

The present study is arranged in five chapters; namely:

- Chapter - I: Includes a brief introduction of the problem.
- Chapter - II: Literature Review

- Chapter–III: The Methodology of the Present Study
- Chapter – IV: Chapter – VI: Details of statistical analysis of data and discussions of results are attempt.
- Chapter – V: Presents the summary of the study, findings, suggestions and offers conclusion.

FINDINGS

The present study made an attempt to understand the impact of the global financial crisis and the subsequent global economic crisis on Kerala economy and its labour market. Kerala is considered to be highly vulnerable to a crisis like this because of its increased openness to outside world. The study examined the behaviour of four channels of transmission, relevant in the context of Kerala, namely reverse migration, inter-state migration, foreign remittances, and IT sector of the state. The major findings of the present study are listed in the below section.

- ❖ The financial crisis enhanced the existing gap between supply of labour and demand for labour. It is important to keep in mind that, apart from quoting the statements of a number of individuals who actually felt the heat of the crisis, the study is not doing anything that explicitly establish causality from global financial crisis and subsequent global recession. The repercussions of these imbalances could watch in the labour market of the state also. The already existing high unemployment worsened in the state due to the crisis. The labour market of Kerala manifested the paradoxical co-existence of unemployment and labour shortage in some sectors like farming, construction field, etc. On the other hand, we can see the excess labour supply in the government sector and other white collar jobs. More clearly, the labour market of Kerala also resembles the hot name of the state, that is, the “Land of Paradox”. The crisis and its slow recovery widened the gap between the labour supply and the labour demand. The adverse impact of the crisis decelerated the employment prospects of the Kerala state.
- ❖ It is found that among the total surveyed people, 30% were extremely affected by the financial crisis, 50% of the people were affected at medium level and

20% confronted the crisis at moderate level only. It is also noted that all surveyed people were tasted the bitterness of the crisis in one form or another form.

- The general implications on foreign remittances, the paper found that there was no decline in the volume of remittances from Gulf countries into Kerala. However, the growth rate in 2008-09 was well below the growth rate recorded in the previous year. However, the individual wise analysis on the basis of the surveyed people shows the deteriorating trends of income earnings, savings, incentives, allowances and promotion chances. The data shows that the crisis severely affected the gulf migrants and IT sector in the state of Kerala.
- The evidence on credit availability shows that there was a slight decline in the growth rate of credit in Kerala in 2008-09. However, there is no firm evidence to believe that the decline was due to the liquidity shortage or more cautious lending policy of the banks. It can also be due to the sluggish demand for credit owning to overall recession in the economy.
- Regarding the annual income of the surveyed people during the period of pre-crisis and post-crisis, there is huge difference in the annual income of the people. The general thing is that the financial crisis led to a fall in the annual income of the people. When we take the income group of 10000-20000, the percentage of the people who belonged to this group decreased from 24% in the pre-crisis period to 20% in the post-crisis period. And in the case of the income group of 30000-40000, the difference is huge, that is, from 32% to 6%. More interestingly, the income group of below 5000 is increased from 4% to 14% and the income group of 5000 to 10000 also increased from 14% to 38% in the respective periods. The striking finding here is that the percentage of people in the high income group drastically declined and the proportion of the people in the low income group increased. This disparity in the income earnings is due to the apparent impact of the crisis in the form of salary cut, loss of job, prevention of promotion chances and also forced to do jobs at low wages.

- Skill level analysis of the people those who confronted with the job loss at firm level during the crisis shows that about 23 per cent unskilled workers lost their job. This group includes gulf migrants, internal migrants and construction workers. About just nine per cent semi skilled and highly skilled workers (IT professionals) had lost their job. The gender aspect of skill analysis of the job loss pattern indicates that out of the 23 per cent unskilled workers 8 per cent were females. Again out of the 9 per cent skilled workers who lost job just one per cent was females. Moreover, among the semi-skilled workers all the job losers were males. The government sector insulated from the job loss and cut in the salary. Interestingly, only 32% of the surveyed people faced crisis at extreme level that is, forced to quit their jobs.
- Interestingly, out of the total correspondents, only 15% heard about NORKA and their rehabilitation schemes of return migrants and enjoyed benefit from this organization is around 11 percentages. It is also found that the volume of remittances from middle-east countries into Kerala decreased during the period of crisis. Many migrants confronted with job loss and salary cut. All these factors were affected the magnitude of remittances.
- It is also found that the inter-state migrants also severely affected by the financial crisis. Many of the internal migrants forced to return to their home states. The deceleration in the construction sector activities reduced the job opportunities for internal migrants from neighbouring states like Tamil Nadu, Odisha, West Bengal, Uttar Pradesh, etc.

SUGGESTIONS

The impact of return of migrants to Kerala will have serious consequences in its economy and social functioning. The sudden exodus of these unemployed people could trigger off economic crisis and social unrest in the State. Therefore, the rehabilitation and reintegration of return migrants into family, society and current economic system has become a much-debated issue in recent times. The government and other many NGOs/INGOs are involved in the reintegration of the returnees. The government also planned some schemes and policies to return migrants on an emergency basis.

World-wide financial crisis and recession have focused attention on remedial measures. The stability in the real market, systematic and healthy financial market and balanced labour market are the pre-requisite factors for a robust growth of an economy. The wise and sagacious labour market policy is essential to mitigate the labour market imbalances. The step should focus to reduce the mismatch between labour supply and labour demand by creating adequate employment opportunities. The coming section is devoted to explain the possible ways to address the challenges and threats emerged from the crisis and envisage socio-economic programmes to ameliorate the living standards of the people including return migrants.

❖ The economic recession emerged in gulf countries in the last few years made a high and sudden return of migrants to the Kerala state. The need for the reintegration and rehabilitation led government in Kerala to think about plan and policies for the return migrants. The ROL find out that the return migrants are one of the important sections of society who have to get better concern in the policy making and implementation in the state. The amicable solution here is the proper reintegration and rehabilitation of the return migrants. In this regard we need productive investment and man power planning.

❖ The state Planning Board, the Kerala State Government and the Central Government must chalk out adequate policies to strengthen the activities of the existing policies and programs (listed below) for reintegration of return migrants, which enhanced the process of rehabilitation.
    - NRK returnee registration
    - Pravasi welfare funds.
    - Skill up gradation trainings.
    - NORKA ROOTS call centres.
    - Chairman Fund
    - Karunya financial assistance scheme.
    - Annual meeting of NRKs named Samanvayam

- The state must utilize the new avenues fully opened through Free Trade Agreement (FTA) with ASEAN. The Agreement commenced on 1st January 2010. ASEAN comprises with ten countries and offer a huge market to India in general and to Kerala in Particular. The state like Kerala got immense opportunities to strengthen her productive base and there by generate more employment opportunities. It also liberalizes the laws related to labor mobility.
- Strengthen the preventive measures like Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA). The scheme's capability to reduce the magnitude of the crisis will be based on the method of implementation. It will augment the purchasing power of the people by creating new job opportunities.
- The global consensus should be includes the confiscation of passports and other documents and harassment of the workers by the employers should be prevented at all times. Adequate compensation should be paid to the workers who are forced to return due to the economic crisis.
- Special attention and schemes to improve the working of the Special Economic Zones (SEZs) and Agri-Processing Zones (APZs). It will boost domestic as well as the external sectors and generate more employment opportunities in the state of Kerala.
- Boost the trade agreements with Asian countries and African continents than "traditional engines of growth economies" like U.S.A., U.K., Japan, etc. Strengthen the economic tie up with "new engines of growth economies" like China, Brazil, South Africa, etc.
- The State Government should incorporate more schemes and programmes in the State Budget to augment the quality of the human resources and give due importance to manpower planning. In addition to these measures, the authority should design economic policies that capable to address the challenges and shocks in the form of financial crisis and absorb the benefits of globalization.

CONCLUDING REMARKS

The significance is that this is a financial crisis that turned in to an economic crisis, which is developing in to an employment crisis and could soon turn out to be a social and human crisis unless urgent action is taken. The action is not just to return Kerala and others to a high growth path but is equally for them to take measures that will protect the vulnerable sections of society during the transition. The economy of Kerala can overcome all the adverse impacts of the economic meltdown if the Government and the People enable to utilize its potential.

As part of the management of the returnees on an emergency basis both the central and state governments and other departments must plan out strong rehabilitation and reintegration packages and policies for this return migrants. The government must have to frame more policies and programs for returnees. The current programs and policies are not adequate by comparing the magnitude of return migrants in the state. The government should also undertake massive investments in the infrastructure and industrial development to boost up the employment opportunities to the returnees, farmers, entrepreneurs and educated youths.

The Government should frame policies to accelerate the transition from crisis to recovery and turn the page on an era of irresponsibility and adopt a set of policies, regulations and reforms to meet the needs of 21st century global economy. Our growth possibilities are immense. No doubt, Kerala is facing the adverse impacts of the crisis but that is a short- term phenomenon. Kerala is a demand and growth centre and it will emerge strongly from its downturn.