

Demand & Supply fluctuation of labour during covid-19 & lockdown in India

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Abstract-

Demand and supply play a vital role in an economic system whether an economy is planned, market or mixed economy. There are many price or non-price determinants which affect demand and supply. Demand for and supply of labour are totally dependent of demand for goods and services in the particular market or an economy. When demand for goods and services increases, it affects the demand for labour and hence, demand for labour and wage rate also increases and vice versa. When supply of labour decreases, it affects the wage rate, the wage rate starts increasing and vice versa. Covid-19, a pandemic started from china and spread across the world has affected the whole world economically and socially. The govt. of India decided to shut down the whole economy by opting complete lockdown on 24th march 2020. Demonetisation, GST and Excessive money being used for political campaign and advertisement has already caused low GDP (4%) before lockdown and the complete lockdown following it has pushed Indian economy to -23.9 GDP in September 2020. Complete sudden lockdown caused a panic situation in Indian firms and labour, which has forced workers to quit cities and

moves to home town which resultantly caused increased supply for labour in villages and increased demand for labour in cities.

Keywords- Demand & supply of labour, Wage rate determination, wage rate, covid-19, lockdown

Introduction-

Indian economy is a combination of formal and informal economy. Formal sectors consist of Banking, Hospitals, Education institutions, Software and hardware companies, telecommunication, Road, rail, airways etc where employees are being hired on certain agreements such as working hours, monthly remuneration, PF deductions, Income tax deduction in case if it is applicable, medical benefits, paid holidays etc. whereas the Informal sectors consists of Small shops, a vegetable vendor, street food vendor, daily wage workers, farmers etc. Under informal sector, benefits such as health, insurance, PF, paid leave etc are not provided. India formal sector contributes to around 58% of Indian GDP, whereas the informal sector contributes to around 42%.

Formal and informal sectors create employment opportunities in India. Involvement of workforce in formal sectors is around 7%, whereas 93% workforces are in informal sector (acc to the economic survey 2018-19 on July 2019).

On 24 march 2020, the prime minister of India ordered the first lockdown for 21 days, by giving 8 hour notice to the Indian citizens. This has created a chaos, anxiety and fear among the citizens. Workforce who was involved in informal sectors and daily wage earners who were working in companies in major cities of India (Delhi, Mumbai, Bangalore, Chennai, Hyderabad etc) started returning to their home town by walk, pedalling, cycling, using bikes, cars etc. This has taken many lives and many industries were shut off. Lockdown extended into phases (phase 2, 3, 4, 5 etc) and in august 2020 leniency has been given in lockdown.

Demonetisation, GST, and excessive taxable money used for political advertisement and sudden lockdown of the whole Indian economy caused GDP to plummet up to -23.9%.

Demand for labour in Indian cities and supply of labour in Indian villages–

The major cities such as Delhi, Mumbai, Bangalore, Chennai, Hyderabad, Noida, Gurgaon, Kolkata, Surat, Ahmadabad etc. create high amount of employment in formal and informal

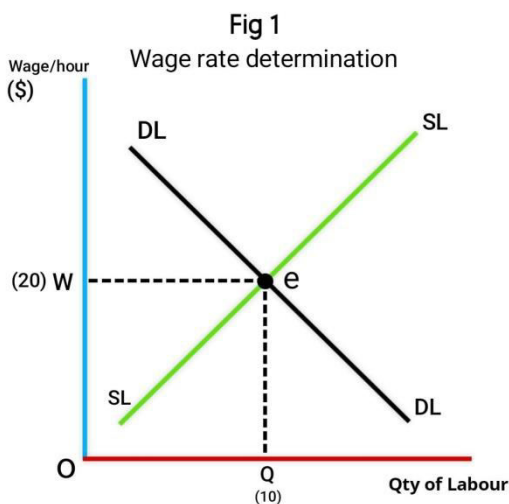
sectors. Sudden lockdown forced these workers to move back to their home town, which has caused excess demand for shortage of labour supply in cities and excess supply of labour in villages.

The various news papers and news media reported 4 to 5 lakhs migrants' workers left Bengaluru city, 40 lakhs workers left Chennai, 12 lakhs workers left Mumbai, around 70 thousand workers left Hyderabad, around 8 lakhs workers left Delhi.

Around 1 to 2 crores workers left major cities of India and returned to their home town, which caused shortage of labour supply in major cities of India and excess supply of labour in the villages. The on-going projects came to halt and hence demand for labour soared high in major cities of India. Here we will explain how wage rate will be determined and what will be the effects of demand-supply fluctuation of labour as well as wage bargaining.

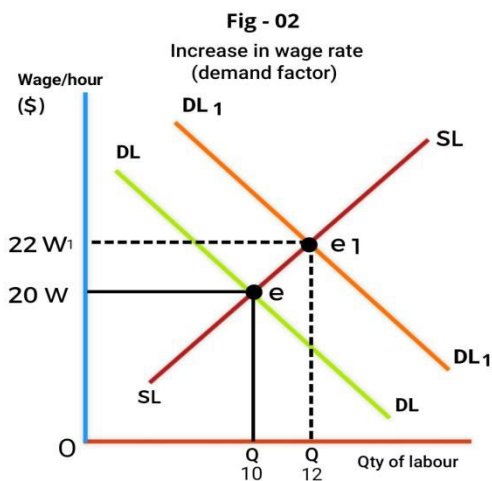
The theory of economics says wage rate is being determined by intersection of demand for and supply of labour. When the demand for labour increases, the demand curve for labour shifts to the right that result in increase in the wage rate and vice versa. When the supply of labour decreases, its supply curve for labour shift to the left, which cause an increase in wage rate and vice versa.

Wage rate determination can be explained with the help of fig 01. In fig 01 Horizontal axis shows qty of labour in thousand and vertical axis shows wage rate in USD. DL depict demand for labour and SL depict supply of labour, both DL and SL intersect at equilibrium point e where demand for labour and supply of labour are equal and wage rate OW (\$20) & OQ (10). In fig 1 there is no excess demand for or supply of labour, it is the situation before increasing demand and supply of labour.



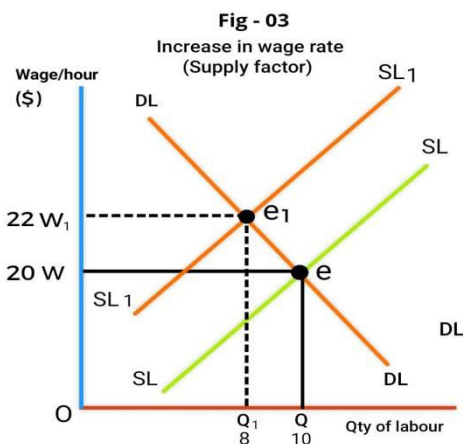
In figure 02 the demand for labour has been increased and the factors behind increase in demand for labour is unplanned surprised lockdown in India, which has forced labourers to quit cities and return to their home town during covid-19. Many ongoing projects and moving businesses came to halt and demand for labour in cities increased. To complete the ongoing projects

labourers were called by air and by train AC 2 tier or even first class to major cities such as Bangalore, Hyderabad, Chennai etc. Labourers got chance to go for wage bargaining as demand for labour has been increased. Initial demand and supply of labour DL and SL intersect each other at point e and initial wage rate OW (\$20) and quantity of labour OQ (10). When the demand for labour increased, demand curve for labour shifted to DL1 and new equilibrium point attained at point e1, wage rate increased by OW1 (\$22) and quantity of labour increased by OQ (10).

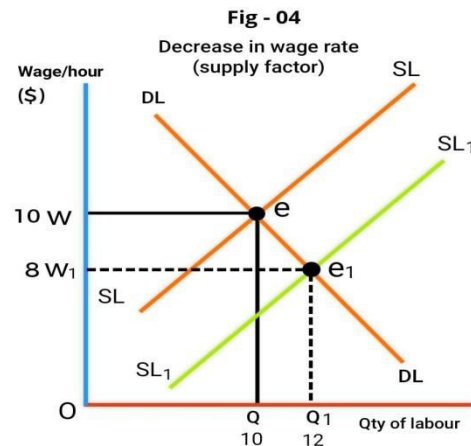


In figure 03 supply of labour has been decreased and the factors behind decrease in supply of labour is unplanned surprised lockdown in India. This has forced labourers to quite the cities and return to their home town during covid-

19. Resultantly, supply of labour decreased in the cities and hence supply curve shifted from initial supply curve SL to SL₁ and which has forced wage rate to increase from OW (\$20) to OW₁ (\$22) and supply of labour decreased from OQ (10) to OQ₁ (8)



In figure 04 supply of labour has been increased and the factors behind increase in supply of labour in villages is unplanned surprised lockdown in India, which has forced labourers to quit from cities and return to their home town during covid-19. This resultant in increased supply of labour in the villages and hence supply curve shifted from initial supply curve SL to SL₁, which has forced wage rate to decrease from OW (\$10) to OW₁ (\$8) and supply of labour increased from OQ (10) to OQ₁ (12). Due to lockdown, there was excess supply of labour in the Indian villages; hence wage rate has drastically gone down.



Conclusion – A market cannot survive without demand and supply. Demand is an independent variable where supply is dependent. Low demand for goods and services means there will be low supply of goods and services. Sudden surprised lockdown has proven a disastrous situation for both consumers and producers during covid-19. Due to migration of labourers from cities to villages many employees in the organised sectors also lost jobs as demand for goods and services decreased and hence supply followed the low demand. Due to low supply of goods and services industries were shutting down. Due to Demonetisation, GST and excess taxable money used on political campaign, big industries such as automobile, textile were suffering before covid-19 and unemployment was rising. The covid-19 and lockdown has worsened the situation further leading to adversity in the job market and high rate of unemployment.