

# IMPACT OF ECONOMIC REFORMS AND GROWTH IN INDIA ON RURAL EMPLOYMENT-AN ANALYSIS

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## ABSTRACT

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*Growth of an economy trickles down to the lowest level entity which may be considered as village. Growth is not an end in itself but the means to an end. Economic growth leads to several changes in rural areas. It should result in lower incidence of poverty, improvements in health outcomes, universal access to school education, increased access to higher education, better opportunities for both wage employment, livelihoods and improvements in provision of basic amenities and improving the socio-economic conditions of marginalized groups. Economic growth is the increase in the real output of the country in a particular span of time. The spatial composition of growth reflected in terms of a rural development disparity motivates people to shift to areas with better prospects. As total poverty is a weighted average of rural specific poverty ratios, the net effect of population mobility on poverty depends on the changes in its rural components. Alleviation of poverty in rural areas has been the main agenda since Independence. In all Five-Year Plans particularly during Fifth-Five Year Plan period importance had been given to reduction in poverty, provision of other basic needs and equitable development. Notable achievement took place during the post-reform period and has done well in economic growth. However, still has been rural areas have been facing problems like poverty, low agricultural growth, low quality employment growth. This paper focuses on the impact of reforms and growth on rural employment.*

**KEYWORDS:** *Economic Growth, Economic Reforms, Poverty, Employment, Equitable Development.*

## INTRODUCTION

India is predominantly a rural country. As per the 2011 census, 68.80 per cent of country's population and 72.40 per cent of workforce resided in rural areas. However, steady transition to urbanization over the years is leading to the decline in the rural share in population, workforce and GDP of the country. Between 2001 and 2011, India's urban population increased by 31.80 per cent as compared to 12.18 per cent increase in the rural population. Over fifty per cent of the increase in urban population during this period was attributed to the rural-urban migration and re-classification of rural settlements into urban.

Traditionally, agriculture is the prime sector of rural economy and rural employment. The transition in composition of output and occupation from agriculture to more productive nonfarm sectors is considered as an important source of economic growth and transformation in rural and total economy.

It is often felt that unplanned rural to urban migration, particularly in search of better economic opportunities, is putting severe pressure on urban amenities and forcing a large number of low wage migrants from rural areas to live in unhygienic and deprived conditions. Thus, to check unplanned migration from rural to urban areas and to improve socio-economic conditions of vast majority of population in the country, there is a need to make rural economy stronger and create employment opportunities in rural economic activities.

Growth of an economy trickles down to the lowest level entity which may be considered as village. On the other hand growth and development of the lowest level can contribute to the overall growth of the economy through multiplier effect. The pace of trickledown from top to bottom depends on the efficient planning and implementation of the Government's schemes and programmes.

Economic reforms in various sectors of the Indian Economy are mostly related to the process of Liberalisation,

Privatisation and Globalisation (LPG). The most important impact of this LPG model on the Indian Economy has been a very high rate of growth of Gross Domestic Product. Such a high growth rate of economy was never achieved by India since independence. This could be considered as a major achievement of the country during the last decade.

Globalisation and liberalisation policies have had significant impact on the economies of developing countries. It is general proposition that the opening up of economies and removal of trade restriction can play an important role for the higher economic growth. It will lead to the higher and more employment opportunities for the working population which certainly leads to decline in poverty rate. India is now regarded along with China as one of the high growth economy. Since last decades or so, there is no doubt that the economy has done well on the growth front. For two decades (1960's and 1970's) India's growth rate averaged only 3.5 per cent

per year. During 1980's the government has introduced some deregulation and liberalisation measures to achieve the higher growth rate. In 1980's the growth rate of GDP was accelerated to 5.6 per cent. A much broader efforts at 'systematic reforms' were initiated in 1991 based on wider play of market forces, gradually liberalisation of financial sector and opening of the economy to world trade and capital flow. This success is measured on the basis of some indicators and several other indicators, which are key for the overall development, have been ignored by the growth story explainers. The focus of the policy designers and a class of economists particularly after the introduction of economic reforms is on the GDP and investment growth. However, to expect the growth to be inclusive is one thing, but to realise it in practice is another. Whether the gains from GDP growth will be shared by the poor and it will be able generate the productive and long term employment opportunities are equally important issue.

## RURAL POPULATION AND POVERTY

**Table 1. All-India Distribution of Rural Population by Household Type**

Household type	Population (%)			
	1993-94	1999-2000	2014-15	2009-10
Self-employment agriculture	42.40	37.10	39.80	35.50
Agricultural Labour	27.50	30.10	24.10	23.80
Employment agriculture	69.90	67.20	63.90	59.30
Self-employed in non-agriculture	13.10	13.90	16.70	16.40
Other labour	7.50	7.60	10.60	14.80
Others	9.50	11.40	8.80	9.40
Employment on non-agriculture	30.10	32.90	36.10	40.60
All	100.00	100.00	100.00	100.00

*Source: Seventeenth Round, Report No.537, Employment and Unemployment Situation in India, 2009-10.*

It could be seen from Table 2 that 69.9 per cent of the rural population was employed in agricultural sector in 1993-94 which has declined to 67.2 percent in 1999-2000, 63.9 per cent in 2004-05 and 59.3 per cent in 2009-10. The employment rural population in agricultural sector has been declining

continuously where employment of rural population in non-agricultural activities has been increasing corresponding. With the growth of non-agricultural employment and diversification in agricultural activities, the poverty in rural areas has also declined over a period of time.

**Table 2. Proportion of Population below Poverty Line**

S.No.	Year	(per cent)		
		Rural	Urban	Total Urban
1	1993-94	54.10	31.50	45.30
2	2004-05	41.80	25.70	37.20
3	2009-10	33.80	20.90	29.80
4	2011-12	25.70	13.70	21.90
5	2017-18	29.60	9.20	22.80

*Source: Planning Commission, NSO Mint calculations.*

The poverty incidents in both rural and urban areas is presented in table 2. It shows that between 1993-94 to 2011-12 rural poverty rates have consistently declined overtime from 50.1 per cent to 25.70 per cent ever since India moved to a high growth trajectory in 1990s. However, rural poverty rose nearly 4 percentage points between 2011-12 and 2017-18 to 30 per cent even as urban poverty for 5 percentage points over the same period to 9 per cent.

## SECTORAL COMPOSITION OF WORKFORCE

With differential growth of employment among different sectors of the economy, there have obviously been changes in the structure of employment. among the three major sectors by broadly division of economic activity namely, agriculture, industry and services, the structural change theories states that in the most of the developed countries the economy progress the share of primary activities in GDP and

employment has recorded decline, share of secondary sector recorded increase and the share of tertiary sector recorded slow increase as compare to secondary sector.

The sectoral distribution of workforce in India is present in Table 3. The data reveals that the rural working population employed in agriculture has recorded decline during 1983 to 2009-10. There is secular decline in share of primary sector in employment for both males and females in the rural areas. The share of male workers in primary activities among all male rural workers has recorded decline of 10.7 per cent between the periods from 1983 to 2009-10, whereas for female workers the share of primary sector in employment was decline of 8.2 per cent during the same period of time. During 2009-10, the female workers of rural areas involved in primary activities have recorded 79.3 per cent, whereas male workers in the rural areas active in primary sector activities have recorded 62.8 per cent.

**Table 3: Sectoral Distribution of Workers**

Year	Rural Males			Rural Females		
	Primary	Secondary	Tertiary	Primary	Secondary	Tertiary
1983	77.5	10.0	12.5	87.5	7.7	4.8
1993-94	74.1	11.2	14.7	86.3	8.2	5.5
2004-05	66.5	15.5	18.0	83.3	10.1	6.6
2009-10	62.8	19.4	17.8	79.4	13.0	7.6

Source: Employment and Unemployment Situation in India, Various Rounds, NSSO.

On the other hand, secondary sector which is also referred as dynamic sector of the economy has recorded increase in share of employment for both male and female workers in the rural areas. However, the increase in male workers is higher than the increase in female workers from 1983 to 2009-10.

The female workforce employed in tertiary sector activities in rural areas has recorded 4.8 per cent in 1983 and it has increased to 7.6 per cent in 2009-10. The rural male workers employed in tertiary sector activities were near about double than the female workers in 1983. In 2009-10, the male workers employed in tertiary sector have increased to 17.3 per cent. The percentage of male workers in services sector has increased to 59.3 per cent. It is quite clear that in tertiary sector, the opportunities for female workers have increased at a higher rate in comparison to male workers after the introduction of globalisation policies in India. The slow change in employment structure assumes the nature of a problem particularly when seen along with the change in the structure of the national gross domestic product. During the period when the share of employment in agriculture declined, the contribution of agriculture sector in GDP also declined from 39.93 per cent to 16.93 per cent and when the share of service sector in employment increased, the contribution of service sector to GDP increased much faster during the same time period. As a result, the asymmetry between the income and employment shares among different sectors has sharply

increased, particularly between the agricultural and non-agricultural sectors. A sharper decline in contribution of agriculture in GDP than in its share in employment implies a decline in its relative productivity and increase in income differential between agriculture and non-agriculture sectors. An opposite trend is seen in services, where the increase in GDP share has been faster than of employment, while industry has retained its position in respect of relative productivity. That there would be a decline in the share of agriculture in GDP was expected, but a continuance of heavy dependence of workers and population on agriculture as source of income and livelihood is a matter of concern from the viewpoint of poverty and inequality. One hopes that a relatively higher employment growth in manufacturing, construction, transport and services like trade as experienced in recent years lead to some correction in this increasing imbalance.

#### **RURAL SHARE IN OUTPUT AND EMPLOYMENT ACROSS SECTORS**

The sector-wise disaggregation shows significant changes in the contribution of rural areas in the national economy. Besides producing almost all agricultural produce, rural areas contributed around one third of non-farm output and 48.7 per cent of non-farm employment in the country (Table 4). The contribution of rural areas in different sectors of non-farm economy revealed large variation and interesting patterns.

**Table 4. Share of rural areas in total NDP and workforce across different sectors (per cent)**

Year	Agriculture		Manufacturing		Construction		Services		Non-agri.	
	NDP	Emp.	NDP	Emp.	NDP	Emp.	NDP	Emp.	NDP	Emp.
1970-71	96.2	96.8	25.8	51.5	43.2	64.6	32.8	42.1	32.4	47.3
1980-81	94.9	95.9	31.8	48.1	45.6	58.8	34.0	41.7	35.0	44.9
1993-94	93.9	95.8	29.8	51.3	45.1	57.2	33.6	42.3	34.8	46.6
1999-00	93.2	96.6	41.6	51.5	43.3	57.6	27.1	40.7	31.8	45.8
2004-05	94.1	96.1	42.5	49.6	45.5	64.4	32.7	41.9	36.7	47.2
2011-12	95.1	95.9	51.3	47.4	48.7	74.6	25.9	39.6	35.3	48.7

Note: Emp.: Employment, Non-agri. Includes manufacturing, construction, services and other sectors.

The most striking change in rural share was observed in the case of manufacturing sector. Between 1970-71 and 2011-12, the share of rural areas in output of manufacturing sector doubled and exceeded the manufacturing production in urban areas. Rural areas contributed 51.3 per cent of manufactured output in year 2011-12. However, this sharp increase in the rural share in output did not fetch any increase in rural share in employment in manufacturing sector. On the contrary, rural share in total manufacturing employment in the country declined by 4.1 percentage points during the forty years ending with 2011-12. Clearly, manufacturing sector was shifting to rural areas but without commensurate increase in the employment.

In the same period, the share of rural areas in construction sector output increased by 5.5 percentage points, while employment share increased by 10.0 percentage points. In

case of services sector, rural areas lost to urban areas in a big way after 2004-05 and accounted for 25.9 per cent of services output in the country in the year 2011-12. These changes indicate that rural employment has risen at a much faster rate in relatively low paid construction activities. The underlying reasons and implications of these changes are discussed in the later sections of the paper.

#### **CONCLUSION**

Economic growth due to the implementation of economic reforms has brought out significant changes in nature and structure of rural economy. Rural transformation is a proactive and positive process of change and development of rural communities in the context of national and global social changes. It makes enter the urban features into the rural settings which ultimately impact on rural peoples standard of living and livelihoods characterized by changes in civic

amenities, female literacy, gender ratio, employment structure, agricultural intensity, crop selection pattern, farm income, labour productivity and major improvement in rural housing and economic and social conditions. The rural people are mostly spending upon agriculture and related informal sector activities. The analysis shows that India there has been some positive impact due to the impressive economic growth. It has been observed change and development occurred in rural areas in rising consumption level, cropping intensity, adoption of high-value crops, per capita agricultural output and educational attainment. Globalization has not made any positive effect on workforce participation rate on rural India. The workforce participation female workers in rural areas recorded decline after the introduction of neo-liberal policies. In rural areas, the share of secondary and tertiary sector in employment generation has increased for male and female workers due to the growth of economy after economic reforms.

During the four decades from 197-71 to 2011-12 rural output increased almost seven times and rural economy has now turned more non-agricultural with the share of agriculture in rural income reduced to 39 per cent. However, there has been decline in rural employment between 2004-05 and 2011-12 was due to withdrawal of labour force from the agricultural sector, majority of whom did not join the non-farm sectors. Therefore, the employment intensive growth in rural areas warrants special attention towards the non-farm sectors, particularly manufacturing and servicing sections. To provide productive employment to the rising population and labour force leaving agriculture. 50 per cent of the workforce is employed and contributing less than 15 per cent to GDP which is a lowest productive sector. Hence, there is need to diversity, the employment base of rural areas has to be enhanced in labour intensive areas by increasing poverty, fishery, dairying, horticultural floriculture etc. This will help not only increasing the productivity of workers in rural areas but also to check migration to urban areas.

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