

Labour Market Changes, Rural Employment and Poverty in India

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This paper examines the changes in labour market including rural areas and their implications for poverty.

Labour market situation

It is important to understand labour market situation in India for framing better policies to reduce poverty. Labour force and Work participates rates in India are low particularly for women. There are significant imbalances across sectoral shares in GDP and employment. While 49 per cent of the workers are engaged in agriculture and the allied sectors, agriculture contributes to only 14 per cent of the GDP; on the other hand, the services sector contributes to 58 per cent of the GDP but employs only 27 per cent of the workers. The manufacturing sector employs only 13 per cent of the workers and contributes to 16 per cent of the GDP. Such a high share of employment in agriculture is not observed in most developing countries, except a handful of some of the poorest developing countries in South Asia and Africa.

Around 92% of the employed are informal workers. 50% of the total workers are self-employed while 30% are casual, 18% are regular workers. Regular formal are only 8% of total workers. The levels of education and professional and vocational skills of workers in general are low. Disadvantages social groups like SCs and STs are not employed in productive sectors and they are more in casual employment. There is considerable segmentation in labour market by sector, location, region, gender, caste, religion, tribe. Like any developing country, most workers in India can't remain unemployed. Open unemployment is only 2.1%. Lack of productive employment is the main concern.

Changes over time

The high rate of economic growth during the last two decades or so from the early 1990s onwards, has certainly contributed to reduction in extreme poverty and in modestly improving the levels of living of large sections of the population. Although overall there has been employment creation, with varying degrees over different time periods, the employment creation has overwhelmingly occurred in the informal economy.

Inequality in Labour market

Inequality and disparity between various types of workers—formal and informal, rural and urban, casual and regular—have widened particularly during the 1990s. The wage share to total value added in the manufacturing sector has been declining—it declined from around 0.45 in the 1980s to around 0.25 by 2009-10.

Inequality has several other dimensions, one of which is the unbalanced pattern of growth, as amply revealed by the sectoral composition of income and employment. Further, there is acute sub-sectoral disparity, more so within services in terms of occupation, industry and nature of employment. All these factors are accompanied by inequalities across gender, region, tribe and castes. Access to

various social groups (Scheduled Castes [SCs], Scheduled Tribes [STs], Muslims, Other Backward Castes [OBCs] and others) and regions/states show a positive contribution of affirmative policy as well as their limitations, and points to the emerging areas of interventions. The trends clearly show that while SCs and STs have largely benefited from the affirmative policies in public sector jobs while in case of OBC, the benefits have been disproportionately captured by some regions. Further, there are huge 'within group' inequalities, more so among the upper caste Hindus and other better-off groups.

Positive trends

There have been some positive trends, which have been witnessed along with the above-mentioned developments. One such notable feature is the rising level of wages—the real wages have consistently increased, to around 3 per cent per annum, over the last three decades, and are accompanied by rising labour productivity. This has been one of the most important factors behind the decline in the level of absolute poverty, though the latter is still very high. An important aspect that needs to be noted in this regard is that the rate of increase in wages for casual workers was higher than that for regular workers between 2004-05 up to 2011-12—a fact which is hardly known, but is very important in the context of the debate on the impact of growth on poverty. There are some other aspects too of this positive story. For the first time, there seems to be a reversal in the trend towards informalisation—the share of regular formal employment in the total employment, which has been declining since the 1980s, increased from 6.5 per cent to 7.5 per cent between 2004-05 and 2011-12. The share of organised sector workers also significantly increased from 11.8 per cent in 2004-05 to 17 per cent in 2011-12, while that of regular workers went up from 14.3 per cent to 17.9 per cent, respectively, during the same period. Further, the shift of workers from agriculture to the non-agricultural sectors has been the steepest during this period—while during the seven-year period 2004-05 to 2011-12, the percentage of workers engaged in agriculture declined by 7.4 percentage points, but a similar level of decline could not happen earlier during eleven-year period from 1994 to 2005. Further analysis is needed to understand whether this is just an aberration or an indication of a paradigm change towards a possible 'Lewisian Turning Point'. These trends have considerable implications for understanding the debate on the impact of growth on employment and poverty in India. The access to quality employment of the vulnerable groups such as SCs and STs, particularly in the public sector, has also increased, though only to small extent. However, in spite of some recent efforts, the share of Muslims (other than Muslim OBCs) has declined¹. Another important fact that needs to be noted is the significant increase in the share of OBCs in both public and private sector employment, largely at the expense of the upper strata of society.

Role of Manufacturing Sector

Rise in manufacturing employment is need of the hour. Share of manufacturing in total employment has been almost stagnant at 11 to 12 per cent for a long time. It

¹ See IHD (2014), "India: Labour and Employment Report 2014", Institute for Human Development, Delhi

increased marginally to 13 per cent in 2011-12. India needs to focus on manufacturing sector to provide large scale employment.

In this context, 'Make in India' campaign is in the right direction. It is important to examine the prospects of manufacturing particularly in job creation in the light of East Asian experience and in the present context of global stagnation.

Historical experience shows that countries follow agriculture-industry-service sequence in order to obtain higher growth and productive employment. Many East Asian countries including China could increase their manufacturing share in GDP. However, the share of manufacturing employment in China is low. Japan peaked share in manufacturing in GDP (36%) and employment (27%) by 1970. In Taiwan, the share of this sector in GDP (33.3%) and employment (32%) peaked by 1990. Similarly Korea has slightly lower share and peaked by 2000. In the case of China, the share of manufacturing in GDP is around 33% now but its share in employment is only 16%.

What are the reasons for low manufacturing share in employment in China? Early industrializing countries like Japan, Korea, Taiwan could improve the share in employment. But late industrialization in China, Indonesia and Thailand resulted rise in share of manufacturing in GDP but not employment. Employment in manufacturing today is not quite comparable to employment in manufacturing in earlier times. The reason is that manufacturing enterprises used to directly employ staff for a variety of services required but now they outsource them from service enterprises. In other words, employment that counted as manufacturing employment now counts as services employment. To put it another way, manufacturing today generates less direct employment but more indirect employment in services.

There are constraints even for raising GDP growth in manufacturing. For example, Rajan (2014) says that "world as a whole is unlikely to be able to accommodate another export-led China... Export-led growth will not be as easy as it was for the Asian economies who took that path before us"(p.6)². One reason is that present global situation is not conducive for export led growth. Secondly, manufacturing activity is also being 're-shored' to other countries. He also argued for 'Make for India' rather than exports. Thus, employment growth is much more difficult than GDP growth in manufacturing. This sector in India has been capital intensive. Even China could not increase share of its manufacturing much in employment unlike early industrializers Japan and Taiwan.

Regarding services, countries like Japan, Korea and Taiwan have 60 to 80% share of services in both GDP and employment. On the other hand, China, Indonesia and Thailand have around 35 to 45% share of services in both GDP and employment. In all these East Asian countries, the share of services in both GDP and employment are more or less similar. **India is an exception to this trend.** India's share of services in employment is only 26.4% compared to 58.4% share in GDP. Thus service sector in India presently is not employment intensive. At the same time,

² Rajan, Raghuram (2014), "Make in India – Largely for India", Bharat Ram Memorial Lecture, December 12, Reserve Bank of India.

manufacturing sector has low share in GDP (17%) and employment (12.8%). Therefore, the challenges are to raise both GDP and employment growth for manufacturing and employment growth in services.

There have been significant changes in rural areas in the last few decades. There are seven changes. These are: (1) Increasing connectivity; (2) Rise in education; (3) Increased spending on govt. programmes; (4) Links with urban areas and small towns; (5) Migration to rural and urban areas; (6) Increasing role of *Panchayats* and; (7) Increasing diversification in agriculture and rise of rural non-farm sector.

RURAL NON-FARM SECTOR

The rural non-farm sector is being increasingly seen as an important sector in development literature. The role of rural on-farm sector is crucial both in generating productive employment and alleviating poverty in rural areas because of the limited capacity of the urban sector and near saturation of employment in agriculture sector. The remarkable success of rural industries in China and other East Asian countries has provided strong evidence of the positive role that this sector can play in generating employment and increasing income levels in rural areas. Therefore, rural non-farm sector needs to be given due importance in development strategy in general and the policies relating to rural development, employment generation, and poverty alleviation.

On rural non-farm sector, I will cover on dimensions, determinants and policies relating to rural non-farm sector and employment³.

Dimensions: All India and States

I will be talking on dimensions at all India level and states using NSS data.

At the all India level, the share of non-farm sector in rural areas increased from around 19% in 1983 to 36% in 2011-12. Largest increase occurred between 2004-5 and 2011-12. The share of rural non-farm for males in 2011-12 was 40% while for females it was 25%. It means still 75% of females in rural areas are in agriculture. First time there was absolute decline in the number of agricultural workers after 2004-05. Entire growth of employment in rural areas during 2004-05 and 2011-12 was due to non-farm employment. This was an important structural break since 2004-05.

Which sub-sector benefited in the rural non-farm sector? It may be noted that only few sectors benefited in the rural areas. Growth of non-farm sector particularly since 2004-05 concentrated in construction, transport and communications. The share of construction in rural employment increased from 2% in 1983 to 11% in 2011-12. By 2011-12, construction was the largest employer of males and the second largest employer of females in rural non-farm sector after manufacturing. There was only marginal increase in the share of manufacturing for both males and females.

³ For a review of rural non-farm employment, see Himanshu (2014), "Rural non-farm Employment in India: Trends, Patterns and Regional Dimensions", India Rural Development Report 2013/14, Orient Black Swan

What is the quality of employment in rural non-farm sector? Construction, transport and communication have low productivity. Another way of looking at quality is to look at the shares of casual, self employed and regular workers. The shares show that the share of casual workers increased while those of self employed declined. It is understandable because most of the construction workers are casual labourers. The share of casual workers in the total increased from 23% in 1983 to 27% in 2004-05 but increased sharply to 37% in 2011-12. The share of regular employment declined marginally while self employed share declined sharply.

The trends clearly show that the acceleration in rural non-farm employment growth after 2004-05 was also accompanied by deterioration in the quality because of increasing casualization. But, still wages in casual workers in non-farm construction may be higher than agricultural workers. This is one of the reasons for faster reduction in poverty.

We all know that new dynamics in rural labour happened with the introduction of MGNREGA (Mahatma Gandhi National Rural Employment Guarantee Act). It had positive impact on rural labour relations. They had better bargaining power and rural markets tightened. Rural wages have increased. The construction boom coincided with MGNREGA. There is a debate whether the share of construction in total employment increased sharply due to MGNREGA or due overall growth of 8 to 9% during that time. The employment share of MGNREGA in casual employment is not very high. Therefore, normal growth process could have triggered construction even in rural areas.

Another one is the share of income of rural non-farm sector in total rural income. We do not have estimates from NSS data. NCAER data shows that the share of non-farm sector in total rural income is around 48%. Income share of rural non-farm sector is higher than the share in employment.

Evidence at state level shows that in the early 1990s, states such as Haryana, Punjab, Kerala, Tamil Nadu and West Bengal had high shares in rural non-farm sector. They have benefited from green revolution. On the other hand, low agricultural productivity states such as M.P., U.P., Chattisgarh, Maharashtra and Karnataka had low shares. But, between 2004-05 and 2011-12, share of non-farm sector increased for most of the states including poorer and low agricultural productivity states (Himanshu 2014). This was clearly evident not only in states like Bihar, Assam, Rajasthan but also in Karnataka, M.P., U.P. and Jharkhand. In terms of levels in 2011-12, high shares of rural non-farm sector are in Kerala with 71%, Tamil Nadu 52%, West Bengal 48%. Bihar has 34% while Orissa level is 39%. Lowest share is in Chattisgarh at 16%. Even Gujarat had only 26% share of rural non-farm employment. Overall, there seems to be some convergence in the share of non-farm employment across states. Most of the increase in non-farm employment in poorer states could be attributed to casual employment in the absence of agricultural employment opportunities and could be residual in nature. The growth in non-farm diversification in rural India in the last two and half decades has been mainly in the form of casual non-farm employment and in lower developed states. Therefore, one has to worry about the quality of employment generated in this sector.

Social Groups: Among the social groups, who is moving towards non-farm sector? Historically, the disadvantaged sections like SCs/STs have not been able to move away from agriculture. But, in recent years, the rural non-farm sector seems given upward mobility particularly to SCs. There was a 12 percentage point shift away from agricultural labour to casual labour for SCs.

Policies for promoting Rural non-farm Employment

Rural non-farm sector is heterogeneous. There can't be one policy package for the entire rural non-farm sector. How to increase pull factors and raise productive employment is an issue.

In general, development of manufacturing sector is important for absorbing labour productively. Right now many workers are absorbed in low productive services sector. Encouragement to women and training and improvement in skills would enhance employment opportunities.

Agricultural Growth: Growth in agriculture is important for rural non-farm sector because of forward and backward linkages. Agricultural growth of 4% during 11th Five year plan period improved non-farm employment. Within agriculture and allied activities, there seems to be some diversification towards non-cereal crops.

Infrastructure development: Although there is lot of progress, almost all indicators score poorly if one looks at India's infrastructure particularly compared with countries like China. For example, power shortage is perennial in India. This is one of the single biggest constraints for our growth. Meeting the energy requirements for growth of this magnitude in a sustainable manner presents a major challenge. It is not surprising that the index of infrastructure across states is highly correlated with per capita income and level of poverty.

Taking advantage of demographic dividend: It is known that with demographic dividend, there will be large numbers joining labour force. There has been sluggish progress in education and skill levels of workers. Young population is an asset only if it is educated, skilled and finds productive employment. During the Twelfth Five Year Plan (2012–17), 50 million non-farm employment opportunities are proposed to be created and at least equivalent number of people would be provided skill certification. There are huge challenges in raising education and skills of workers and population.

Poverty

In the post-reform period, there has been a debate about the impact of reform policies on poverty. It has been argued that inspite of higher GDP growth, the rate of reduction in poverty has been slower. However, this was true till the early 2000s. Poverty declined only 0.74 percentage points per annum during the period 1993-94 to 2004-05. But, as shown in Table 3a, poverty declined by 2.2 percentage points per annum during the period 2004-05 to 2011-12. It is the fastest decline of poverty compared to earlier periods.

Table 1: Changes in Poverty : All India estimates based on Tendulkar Committee methodology

	Rural	Urban	Total	Rural	Urban	Total
1993-94	50.1	31.8	45.3	328.6	74.5	403.7
2004-05	41.8	25.7	37.2	326.3	80.8	407.1
2011-12	25.7	13.7	21.9	216.5	52.8	269.3
Annual decline 1993-94 to 2004-05 percentage points	0.75	0.55	0.74			
Annual decline 2004-05 to 2011-12 percentage points	2.32	1.69	2.18			

Source: Planning Commission, press release, 2013

The reasons for faster decline in poverty in rural areas are the following.

1. Structural transformation in rural employment from agriculture to rural non-farm sector
2. Increase in real wages of rural labourers including agricultural labourers
3. Employment programmes like Mahatma Gandhi Rural Employment Guarantee Act (MGNREGA)
4. Agricultural growth rate of more than 4% per annum during 2007 to 2012.