Inclusive Growth?

Focus on Employment.

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Introduction:

The Report of the Secretary General, United Nations, for the 2006 Economic and Social Council of the United Nations highlighted the centrality of employment to inclusive growth and poverty eradication. Accelerating employment growth is crucial for reducing poverty, because, as the Report points out, labour income constitutes the main source of income for the poor.

But employment creation by itself is not enough. The fact is that in India most poor people *are* employed, nevertheless they are still poor. In short, to reduce poverty – to achieve some measure of inclusiveness – the productivity of much of existing employment needs to be enhanced and new jobs must be productive ones. The proliferation of low productivity informal employment, which has taken place in India, particularly in recent years, is not the answer.

Thus, there are two related problems in India, as in most of the other countries in the South Asian region. First, labour force growth rates, in most periods, have grown faster than the workforce with the result that in India unemployment rates have risen in all but one period.[1] Second, much of the additional employment in all periods has been of poor quality. Nevertheless, for the person from a poor household who is unemployed or underemployed, it has to be conceded that additional low productivity employment is better than no additional employment at all.

It is in this context that the recent SAARC Regional Poverty Profile document recommended that governments in the region should incorporate in their Plan documents time bound employment growth targets side-by-side with other agreed development targets. The relevant paragraph reads as follows.

> *The urgency of accelerating productive employment growth in the interest of poverty reduction, needs new, time bound employment growth targets, placed side-by-side with other regionally and internationally agreed development targets. Such targets could relate to achieving employment growth rates equal to labour force growth rates in the first instance, and to surpassing labour force growth rates at some specified subsequent date.*[2]

[1] In India, by the CDS measure, unemployment rates declined during the 1980s. This episode demonstrated that despite high labour force growth rates, the persistent rise in the numbers unemployed *can* be reversed. This trend reversal was associated with relatively high rates of growth of agricultural production, relatively rapid rates of poverty reduction, and more rapid rates of *formal* sector employment growth as compared to *informal* sector employment growth.

[2] Page 169, *SAARC Regional Poverty Profile 2005: Poverty Reduction Through Productive Employment* .SAARC Secretariat, Kathmandu, August 2006.

Implementation of this recommendation would signal that the recent mantra of "inclusive growth" was to be taken seriously. But then concrete steps would need to be taken to embed employment growth targets in India's five year Plan exercises and in the Plan itself, as envisaged in the recommendations of the SAARC document. Recent evidence of unequalising growth provides a starting point for identifying areas in which corrective action is most required.

Two kinds of evidence are considered here. The first section, below, relates to indicators that tell us who has gained from rapid GDP growth and, more particularly, who has gotten left behind – regionally, sectorally, and personally, in income poverty or nutritional poverty terms.

The second section focuses first, on employment and employment growth, then looks at evidence of possibly significant links, such as those between employment growth and poverty reduction, and between the performance of agriculture in a region and the performance of the rural non-farm sector in the same region. It goes on to examine some evidence on what *kinds* of employment growth do reduce poverty, and what seem to be the prime movers in this process.

1. **Who Has Gotten Left Behind? Where Do They Live?**

The Geography of Poverty and Its Sectoral Specificities

(a)The Core Problem: Low Productivity and Low Productivity Growth in Agriculture and Rural Areas Generally

India enjoyed a 9.4 percent GDP growth rate in the year 2006-07, up from 9.0 percent in 2005-06, 7.5 percent in 2004-05, and 8.5 percent in 2003-04. This translates into per capita income growth rates of 8.4 percent, 7.4 percent and 5.7 percent in 2006-07, 2005-06 and 2004-05 respectively. Commenting upon these achievements, Finance Minister Chidambaran said that such high growth needs to be sustained "because that is the way forward to eradicate poverty, generate quality jobs and improve human development indicators."[3]

But not everybody shared in this bounty. Agriculture, the single largest employer in the country, grew by only 2.7 percent, and even that is better than in most recent years.[4] Similarly, although the growth rate of employment for the economy as a whole rose to 2.85 percent per year for the period after 1999-00, (a figure well above population growth rates), agricultural employment growth rates have ruled far below population growth rates in recent years. More seriously, *all* of whatever agricultural employment growth took place was in the self-employed status category. The implications of this for the quality of that additional employment are stark.

[3] See *Economic Times* report, 1 June, 2007, pages 1 and 16.

[4] From 1996-7 to 2001-2, the agricultural GDP growth rate fell to 2 percent from the 3.5 percent recorded from 1980-1 to 1996-7. Then from 2002-3 to 2004-5 the agricultural GDP growth fell further to only 1 percent per year. There was a recovery, from this low base, to 6 percent in 2004-05.

In current Indian circumstances, where farmers possessing less than 4.00 hectares cannot cover total consumption expenditures out of net receipts from cultivation and farming of animals combined,[5] and where an estimated 93.3 percent of farmers possessed less than 4 hectares in 2003-04[6], most of this additional self-employment in agriculture must have been of substandard quality.

Clearly, the accelerated generation of "quality" jobs for the roughly 66 percent of the rural male workforce and 83 percent of the rural female workforce who are in agriculture, simply did not happen. For the economy as a whole, non-farm employment growth rates *did* pick up after 1999-00, but the evidence suggests that they also were commonly of poor quality.[7]

The resulting unequal distribution of the gains of growth shows up in the Gini Coefficients for the most recent period, set out in table 1.

Table 1: Inequality in India, (Gini ratios), and Changes in Them: 1983, 1993-94 and 2004-05

Location	1983		1993-94		2004-05
Rural	30.79	(-2.24)	28.55	(+1.90)	30.45
Urban	34.06	(+0.25)	34.31	(+3.20)	37.51

Source: Gini coefficients are taken from Table, page 510, S. Mahendra Dev and C. Ravi (2007), *Economic and Political Weekly,* 10 February.

These figures reveal that rural areas enjoyed "equalising growth" in the 1983 to 1993-94 decade when overall GDP growth rates were lower, but GDP growth in agriculture was higher. At that time, the "new" HYV seed-chemical fertilizer technology was spreading to additional areas. All regions, including the previously lagging eastern region, experienced high yield growth rates during this period.[8] This changed decisively to "unequalising growth" in the high overall GDP growth years of the more recent decade when yield growth stagnated.[9]

The coefficients of variation for yields at the state level in successive periods, tell another part of the story. Gini coefficients for per hectare productivity had declined

[5] Details can be seen in GOI, Ministry of Statistics and Programme Implementation, (2005), *Situation Assessment Survey of Farmers: Income, Expenditure and Productive Assets of Farmer Households*, NSS Report no. 497, NSS 59th Round, (Jan –Dec, 2003), table 6, page A-192.

[6] This estimate is derived from figures given in table A.2.12, Vashishtha, Prem S. (2006), *Reforming Subsidy Regime in Agriculture*, (unpublished), report submitted to the International Food Policy Research Institute, Delhi.

[7] On this, see especially, Jeemol Unni and G. Raveendran, (2007), "Growth of employment (1993-94 to 2004-05): Illusion of Inclusiveness", *Economic and Political Weekly,* 20 January, and Himanshu (2007), "Recent Trends in Poverty and Inequality: Some Preliminary Results", *Economic and Political Weekly*, 10 February.

[8] See G.S. Bhalla and Gurmail Singh (2001), *Indian Agriculture: Four Decades of Development*, Sage, New Delhi.

[9] See G.S. Bhalla (2007), *Indian Agriculture Since Independence,* Popular Social Science Series, National Book Trust, New Delhi.

from 47.72 in 1970-73 to 40.49 and 40.90 in 1980-83 and 1990-93 respectively, and then began to rise again, to 42.85 in 1996-99. In short, within agriculture itself, inter-state yield inequalities also increased during the most recent low agricultural growth period.

It is known that, in general, increases in inequality tend to undermine progress in poverty reduction. In the Indian case, as Mahendra Dev and Ravi, (2007), point out "an increase in inequality seems to have slowed the rate of [poverty] reduction in the post-reform period."[10]

Thus, in 2004-05 India was still home to more than 315 million poor people. Most of them lived in rural areas. Although the absolute number of poor people in rural areas declined substantially between 1993-94 and 2004-05, the number in urban areas rose by a small number, (5.9 million), relative to the rural decline. Nevertheless, despite the improvement in rural areas, it is still the case that the vast majority of India's poor, (just under 74 percent), live in rural areas.

Table 2: Absolute Number of Poor People in India and Changes in Absolute Numbers: 1983, 1993-94 and 2004-05. (millions)

Location	1983		1993-94		2004-05
Rural	252.05	(-4.95)	247.10	(-14.50)	232.16
Urban	72.29	(+5.09)	77.38	(+5.93)	83.31
Rural + Urban	324.34	(+0.21)	324.55	(-9.07)	315.48

Note: Figures in brackets are the change in absolute numbers, in millions.
Source: Rearranged from table 9, page 513 in Mahendra Dev and Ravi,(2007.)

The same information is given in terms of head count poverty ratios in table 3. It shows that the decline in head count ratios was smaller in the 11 year period 1993-94 to 2004-05, than in the somewhat shorter period 1983 to 1993-94. Evidently the record high rates of per capita income growth failed to accelerate the rate of poverty reduction.

Table 3: Head Count Poverty Ratios: 1983, 1993-94 and 2004-05

Location	1983		1993-94		2004-05
Rural	45.76	(-8.50)	37.26	(-9.08)	29.18
Urban	42.27	(-9.71)	32.56	(-6.54)	26.02
Rural + Urban	44.93	(-8.91)	36.02	(-7.75)	28.27

Note: Figures in brackets are the changes in poverty ratios between reference years.
Source: Rearranged from table 8, page 512, Mahendra Dev and Ravi (2007)

(b)The Geography of Poverty and Undernutrition

[10] Quoted from page 519, Mahendra Dev and Ravi (2007), *op. cit.*

In 1983, poverty ratios were very high, (above 40 percent), in 8 major states, (out of 17); in 1993-94 in 5; and by 2004-05 only in two – Bihar and Orissa. These three are the states where the recent gains of high per capita income growth in the country as a whole have conspicuously failed to bring down poverty ratios to the all-India level of 28.27 for 2004-05. Rural poverty remains high, (30 to 40 percent), in Madhya Pradesh, Maharashtra and Uttar Pradesh, and very high in Bihar and Orissa. Urban poverty is high in 5 states – Bihar, Karnataka, Madhya Pradesh, Tamil Nadu and Uttar Pradesh, and very high in Orissa. It can be confirmed from the figures in table 4, that malnutrition among small children is high in most of the same states.

But to find out who has been excluded from the gains of growth and where they live, you cannot rely on the poverty ratios alone. Table 4 puts the National Family Health Survey -3 results on malnutrition among small children and the corresponding state level poverty ratios side-by-side. The numbers differ, not only quantitatively but also qualitatively.

One of the advantages of the NFHS data is that they are not only strictly comparable from one reference period to the next, they are also strictly comparable for rural and urban areas separately.[11] Thus, if you want to know where deprivation is at its worst, use NFHS data on malnutrition among children under 3. This, arguably, is the "bottom line" in an array of possible indicators of exclusive, or inclusive, growth.

The most obvious contrast between the 'poverty' and the 'undernutrition' sides of table 4, is that in all states except Orissa, the percentage of small children who are malnourished is greater than the prevalence of poverty, often by a *very* large margin.

[11] Readers who are interested may refer to the literature about the capacity of Indian poverty ratios to capture changes in the prevalence of poverty over time, which runs from Rohini Nayyar (1991) *Rural Poverty in India,* Oxford University Press, to Utsa Patnaik (2005) "Theorising Food Security and Poverty in the Era of Economic Reforms" in *Social Scientist,* July-August, both on the divergence over time from the underlying base year standard of 2,400 calories, or to Himanshu (2007), "Recent Trends in Poverty and Inequality: Some Preliminary Results". In *Economic and Political Weekly,* Vol XLII, No 6, February 10-16, pp 497-508, who notes that the current weighting diagram for poverty lines gives far greater weight to food than the actual weights for food in the MPCE class around the povertyline.

Table 4: Poverty and Malnutrition in India, by Major State: The NSS and NFHS Story - 2004-05 and 2005-06

Headcount Poverty Ratios by Major States ,NSS 2004-05

States		NSS 2004-05 Total	Rural	Urban
Andhra Pradesh		14.8	10.85	14.8
Assam		20.46	23.05	20.46
Bihar		41.53	43.06	41.53
Gujarat		16.75	19.76	16.75
Haryana		13.92	13.41	13.92
Himachal Pradesh		11.61	12.5	11.61
Jammu & Kashmir		4.81	4.81	4.81
Karnataka		27.15	23.73	27.15
Kerala		14.48	12.27	14.48
Madhya Pradesh		37.21	38.17	37.21
Maharashtra		29.95	30.36	29.95
Orissa		47.07	47.76	47.07
Punjab		8.12	9.55	8.12
Rajasthan		21.48	18.91	21.48
Tamil Nadu		28.31	22.96	28.31
Uttar Pradesh		33.25	34.06	33.25
West Bengal		25.67	28.49	25.67
All India		28.27	29.18	28.27
	SD	11.94	12.39	11.94
	Mean	23.33	23.16	23.33
	CV	51.18	53.50	51.18

Children under 3 Years Who Are Underweight (%)NFHS 3, 2005-06

State		NFHS 3 2005-06 Total	Rural	Urban
Andhra Pradesh		36.5	40.4	29.11
Assam		40.4	41.1	34.1
Bihar+Jharkhand		58.57	60.07	48.3
Gujarat		47.4	50	42.7
Haryana		41.9	41.8	42.1
Himachal Pradesh		36.2	36.4	33.9
Jammu & Kashmir		29.4	31.6	20.5
Karnataka		41.1	45.1	33.8
Kerala		28.8	31.9	22.5
MP+Chhattisgarh		52.28	60.59	49.94
Maharashtra	ra	39.7	43.5	34.8
Orissa		44	45.7	33.3
Punjab		27	29.9	21.5
Rajasthan		44	45.9	36.3
Tamil Nadu		33.2	34.8	31.3
UP+Uttaranchal		46.92	49.07	37.47
West Bengal		43.5	46.7	30
All India		45.9	49	36.4
	SD	8.37	8.90	8.42
	Mean	40.64	43.21	34.21
	CV	20.59	20.60	24.62

Less obvious perhaps, is the contrast between the relative values of rural and urban poverty ratios, on the one hand, and the relative magnitudes of the rural and urban undernutrition figures, on the other. Rural undernutrition is worse than urban undernutrition at the all-India level and, with only one single exception –Haryana- rural undernutrition is also worse than urban undernutrition in almost all major states. On the other hand, rural *poverty* ratios are higher than urban ones in all three reference years at the all-India level, but at the state level urban poverty ratios are quite commonly higher than the rural ones. (Urban poverty ratios were greater than rural ratios in 2004-05 in 6 out of 17 states; in 1993-94 also in 6 out of 17; and in 1983 in 9 out of 17 states.)

In most states the reduction in the proportion of under-age- 3 children who were underweight was greater between 1992-93 and 1998-99 than it was between 1998-99 and 2005-06. The time profile of poverty reduction appears similar to that of child malnutrition at first glance. At the all-India level the reduction in the proportion of people below the poverty line was greater in 1983 to 1993-94 than between 1993-94 and 2004-05 in rural and urban areas separately and combined, *but* there was a substantial number of states where the reverse was true. For rural and urban areas combined and for rural areas alone, only 9 out of 17 major states recorded greater reductions in poverty in 1983 to 1993-94. In urban areas, the poverty reduction advantage of the earlier decade was greater in 12 out of 17 states.

Interstate differences in the proportion of young children who are underweight are much smaller than interstate differences in poverty ratios, as the coefficients of variation in table 4 show. This indicates that very high rates of undernutrition are more or less endemic in rural areas, while high poverty ratios are to a greater extent concentrated in a few states, with other regions exhibiting much lower poverty ratios than the average.

Notwithstanding these important contrasts, it is nevertheless the case that in statewise regressions the relationship between poverty, (as an independent variable) and the percent of under-3 children who are undernourished, is highly significant. (For rural and urban areas combined and for rural areas separately, the relationship is significant at the 99.9 percent level; for urban areas it is significant at the 98.5 percent level.) This, however, should not lead to the unwarranted conclusion that small children do not get enough to eat simply because their parents are too poor, or that 'poverty reduction' alone will eliminate child malnutrition. Other data from the National Family Health Survey suggests, among other things, that undernutrition among pregnant women is passed on to the unborn children, who are born underweight and that children born to illiterate mothers are more than twice as likely to be malnourished than children born to women who have completed 10 years of schooling or more. Shiva Kumar (2007) concludes that: " India's high levels of child malnutrition reflect the continuing neglect of health, the inadequate reach and efficacy of health and child care services, and the failure of strategies to reach newborn children and those under the age of three."[12] While India's performance is the worst among South Asian countries, (given its level of per capita income), other countries of the region face similar problems. In the light of the experience of South Asian

[12] A.K. Shiva Kumar, (2007), "Why are levels of child malnutrition high", *The Hindu*, June 22, page10.

countries, with related health and education performance indicators, the 2006 SAARC poverty profile document noted that: "Illiteracy and low skill levels are prominent characteristics of the poor….They have shorter expectations of life at birth, and exhibit relatively high levels of infant, child and maternal mortality."[13]South Asian countries where health and education facilities are provided free achieve distinctly superior human development records than India's. The Report concludes by recommending that: "Basic social services should be either free or subsidisedd, regardless of whether they provided by public, private or non-governmental agencies."[14]

(c)The Sectoral Concentration of the Poor

Rural headcount poverty ratios have for many years been highest among agricultural labourers, construction workers, and workers in rural manufacturing units, in that order, as the figures in table 5 reveal. But by far the largest *number* of poor people work in agriculture, either as cultivators or as agricultural labourers – roughly 170 million people, or about 77 percent of all rural poor persons in 1993-94. (The figures in tables 5 and 6 are out of date, but work is currently in progress to repeat the exercise[15] for 2004-05.)

Table 5: Rural Head Count Poverty Ratios for Persons in Households Engaged in Specified Sectors Sectors, 1987-88 and 1993-94

Reference Year	Cultivators	Agri-cultural Labourers	Construc-Tion	Manu-facturing	Trade	Transport	Health & Education	Other Services
1987-88	29.25	57.86	44.25	33.33	24.88	26.83	10.77	25.91
1993-94	26.35	54.65	42.42	32.24	24.85	27.69	8.41	23.91

Source: Computed from NSS unit level data, using the expert group methodology and official poverty lines.

Table 6: Persons below Poverty Line among Rural Households by Principal Industry Group, 1987-88 and 1993-94

Sector	Year	Number	Share in All Rural Poor (%)
Agriculture	1987-88	153,542,000	78.77
	1993-94	169,905,000	77.22
Mining	1987-88	1,081,000	0.55
	1993-94	1,459,000	0.66
Manufacturing	1987-88	10,490,000	5.38
	1993-94	11,564,000	5.26

[13] Page 166, SAARC Regional Poverty Profile, *op.cit.*
[14] Page 168, *Ibid.*
[15] For state level details, see appendix tables in Sheila Bhalla, (2002), "Behind Poverty: The Qualitative Deterioration of Employment Prospects for Rural Indians" in (eds) S.S.Acharya, Surjit Singh and Vidya Sagar, *Sustainable Agriculture, Poverty and Food Security*, volume 2, Asian Society of Agricultural Economists, Seoul, Rawat Publications, Jaipur andDelhi.

Electricity, Gas,	1987-88	307,000	0.16
Water Supply	1993-94	294,000	0.13
Construction	1987-88	7,863,000	4.03
	1993-94	8,227,000	3.74
Trade	1987-88	6,737,000	3.46
	1993-94	9,044,000	4.11
Transport	1987-88	2,655,000	1.36
	1993-94	3,844,000	1.75
Services	1987-88	8,178,000	4.2
	1993-94	10,942,000	4.93
Others	1987-88	3,454,000	1.77
	1993-94	3,627,000	1.65
Total	1987-88	194,933,000	100
	1993-94	220,020,000	100

(d)The Concentration of Poverty among Rural Workers in Particular Employment Status Categories

The figures in table 7 confirm the well known fact that at the all-India level, rural casual labourers are the poorest among all rural workers. They are even poorer than non-workers, who constitute the second poorest group. The self employed, third in order of decreasing head count poverty ratios, are considerably better off, but not quite as well off as the chronically unemployed, who clearly, (in the typical case), belong to households which can afford to maintain them at per capita consumption levels which bring a large majority of them above the poverty line. This confirms what many people have been saying about the long term unemployed in rural India. People from really poor households cannot afford to remain unemployed. If the worst comes to the worst they take up casual labour jobs. (This may have changed by 2004-05. The evidence suggests that large numbers of people may have taken up low productivity self employment activities instead.) Poverty ratios are the lowest among regular salaried workers.

Table7:Poverty Ratios by UPS Employment Status, All India Rural - 1993-94 and 199-00

UPS Employment Status	Reference Year 1993-94	1999-00
Self-employed	28.28	25.46
Regular	17.85	15.19
Casual	45.91	41.79
Unemployed	25.88	24.3
Non-workers	38.15	35.6
Total Population	36.8	33.82

Note: The poverty ratios for 1999-00 are based on an abbreviated consumption questionnaire and cannot be compared with the 1993-94 estimates. However, estimates for each reference year can be compared across employment statuses.

2.**Employment in India – Evidence and Issues**

In India, during the 1990s agriculture virtually ceased to employ more labour and so did the organised, or 'formal', non-farm sector. These two segments together – agriculture and the organised sector – accounted for close to 70 percent of all employment in 1999-00, and yet they contributed almost no new jobs. The result? During the 1990s, the burden of providing additional employment to the growing labour force fell upon the unorganised (or informal), non-farm sector, which accounted for only 30 percent of employment in rural and urban areas combined.

The result was that rural employment growth rates collapsed to less than 0.7 percent, pulling down overall (rural plus urban) employment growth rates to unacceptably low levels, pushing up recorded rates of unemployment[16] and easing some people out of the labour force altogether.

Table 8:All India Farm and Non-farm Usual Principal and Subsidiary Status Employment Growth Rates, Rural and Urban, Specified Periods

Sector			Rural		
	1972-73 to 1983	1983 to 1987-88	1987-88 to 1993-94	1993-94 to 1999-00	1993-94 to 2004-05
Agriculture	1.59	0.12	2.32	0.20	0.76
Non-Agriculture	4.54	5.79	1.41	2.34	3.63
All Sectors	2.12	1.14	2.1	0.58	1.45
			Urban		
	1972-73 to 1983	1983 to 1987-88	1987-88 to 1993-94	1993-94 to 1999-00	1993-94 to 2004-05
Agriculture	3.91	-1.81	4.14	-3.39	0.03
Non-Agriculture	4.12	3.70	3.33	2.98	3.51
All Sectors	4.15	2.82	3.36	2.07	3.14

Rural areas were hit particularly hard. As the estimates in table 8 show, rural employment growth rates in the 1990s fell to less than half of what they had been in the 1980s and to less than one third of the 1990s growth rates in urban India. Non-farm employment growth rates also went down.

During the longer period, (1993-94 to 2004-05), however, rural employment growth rates accelerated in both the farm and the non-farm sectors. This happened despite the slow down in agricultural production and yield growth rates. The non-farm employment growth rate for this period is higher than it has been since the 1980s.

[16] Current daily status unemployment rates in rural areas reached their lowest point ever in 1987-88 at 5.25 percent, then rose to 5.65 percent in 1993-94 and to 7.21 percent in 1999-00.

Nevertheless, rural employment growth overall remains below population growth rates and is still less than half urban growth rates.

Wide interstate contrasts in both rural and urban employment growth characterised the period 1993-94 to 2004-05, as the coefficients of variation in table 9 show. Farm employment growth rates in particular varied extremely widely. Rural non-farm employment growth rates varied far more than urban non-farm employment growth rates did. For all sectors combined, the rural interstate contrasts are substantially greater than the urban ones.

Table 9:Statewise Farm and Non-farm UPSS Employment Growth Rates, Rural and Urban, 1993-94 to 2004-05

State	Growth Rate All Sectors Rural	Growth Rate Agriculture Rural	Growth Rate Non-agriculture Rural	Growth Rate All Sectors Urban	Growth Rate Agriculture Urban	Growth Rate Non-agriculture Urban
Andhra Pradesh	0.73	-0.17	3.56	1.96	-2.52	2.64
Assam	2.48	1.87	4.54	3.65	8.15	3.48
Bihar+Jharkhand	3.44	2.40	7.82	3.07	6.26	2.55
Gujarat	1.96	1.78	2.61	3.52	1.19	3.70
Haryana	2.97	1.93	5.19	3.67	3.65	3.68
Himachal Pradesh	0.95	-0.28	4.70	4.93	-1.90	5.96
Jammu& Kashmir	1.27	-0.19	4.71	3.38	3.61	3.35
Karnataka	1.45	1.42	1.58	2.86	-3.54	3.76
Kerala	1.40	-1.22	3.99	0.52	-3.79	1.65
MP+Chhatisgarh	1.37	0.70	5.91	3.69	1.12	4.12
Maharashtra	1.37	1.08	2.61	3.53	0.74	3.77
Orissa	1.44	-0.03	6.07	2.32	1.12	2.53
Punjab	2.11	1.11	4.57	3.92	-0.20	4.26
Rajasthan	1.50	0.67	4.26	3.05	1.60	3.31
Tamil Nadu	-0.88	-1.52	0.49	3.84	0.32	4.24
UP+Uttaranchal	2.02	1.19	4.76	3.62	0.43	4.09
West Bengal	1.56	1.43	1.77	2.30	-3.48	2.54
SD	0.94	1.12	1.83	0.98	3.34	0.97
Mean	1.60	0.72	4.07	3.17	0.75	3.51
CV	59.10	156.74	44.90	31.03	445.14	27.69

Tamil Nadu recorded negative rural all sectors employment growth. This was due to the substantial contraction of farm employment in rural areas combined with the lowest rural non-farm employment growth rate among all major states. However, several other states also reported negative rural farm employment growth. These include Andhra Pradesh, Himachal Pradesh, Jammu & Kashmir, Kerala and Orissa. In three of these, above average rural non-farm employment growth took place – Himachal Pradesh, Jammu & Kashmir and Orissa. Several states enjoyed urban non-farm employment growth above 4 percent – Himachal Pradesh, Madhya Pradesh, Punjab, Tamil Nadu and Uttar Pradesh. Clearly, rural and urban non-agricultural

employment growth is absorbing workers who are leaving agriculture in a number of these states. The question is: how productive are these additional jobs?

All India employment growth rates in urban areas are more than twice those in rural areas. At the state level, in 15 out of 17 states urban employment growth was more rapid than rural. The two exceptional states were Bihar and Kerala. Tamil Nadu, in its own way, was also exceptional. Rural employment growth there was negative, but urban employment growth was exceptionally high at 3.84 percent per year. Only Himachal Pradesh and Punjab had higher urban employment growth rates than this.

Exceptionally high total employment growth was recorded by some of the richest as well as some of the poorest states, for example Bihar, where high rural employment growth accounted for the very overall employment growth rate, and Haryana, which enjoyed both high rural and high urban employment growth. Punjab, and to a lesser extent Gujarat also recorded high overall growth, both because of high urban employment growth.

Table 10: Compound Rate of Growth of UPSS Workers, 1993-94 to 2004-05, by Rural and Urban Location

State	Rural Persons	Urban Persons	All Persons
Andhra Pradesh	0.73	1.96	0.98
Assam	2.48	3.65	2.62
Bihar	3.44	2.00	3.40
Gujarat	1.96	3.52	2.42
Haryana	2.97	3.67	3.15
Himachal Pradesh	0.95	4.93	1.24
Jammu & Kashmir	1.27	3.38	1.69
Karnataka	1.45	2.86	1.82
Kerala	1.40	0.52	1.18
Madhya Pradesh	1.37	3.69	1.79
Maharashtra	1.37	3.53	2.10
Orissa	1.44	2.32	1.54
Punjab	2.11	3.92	2.65
Rajasthan	1.50	3.05	1.78
Tamil Nadu	-0.88	3.84	0.80
Uttar Pradesh	2.02	3.62	2.31
West Bengal	1.56	2.30	1.76
India	1.45	3.14	1.85

Although persistent increases in unemployment rates have been the hallmark of the recent period, it is worth noting that there *has* been one episode during which a clear reduction in CDS unemployment rates was achieved in India. This happened during

the 1980s. This is the **only** period in which the backlog of the unemployed was reduced in India.

What this episode demonstrates is that despite continuing high labour force growth rates, the persistent rise in the number of the unemployed *can* be reversed. In India, this trend reversal was associated with relatively high rates of growth of agricultural production, relatively rapid rates of poverty reduction, and more rapid rates of *formal* sector employment growth as compared to *informal* sector employment growth. After 1990, this favourable scenario ceased to exist.

On the face of it, India achieved a substantial improvement in the employment situation between 1999-2000 and 2004-05. Simultaneously, however, the 2004-05 employment survey[17] also revealed a distinct worsening of the unemployment situation, during the same period. The survey showed that the employment growth rates had more than doubled between 1993-94 to 1999-00 and 1999-00 to 2004-05, from 1.02 percent to 2.85 percent per year; that the worker population ratios had gone up, instead of down[18] and that the hitherto unrelenting rise in the share of casual workers in the total workforce had ceased, with the self employed group now growing the fastest and the share of the regular waged and salaried set also expanding instead of contracting for the first time in years.[19]

But by 2004-05, so many additional work-seekers had joined the labour force that that unemployment rates rose significantly. Thus despite the surge of successful entrants into the "employed" category, the share of the labour force who were unemployed but seeking work rose from 6.1 percent in 1993-94 to 7.3 percent in 1999-00 and to 8.3 percent in 2004-05.[20] Agricultural workers, as a group, were even worse off. Their CDS unemployment rates rose from 9.5 percent in 1993-94 to 12.3 percent in 1999-00, and then to a record 15.3 percent in 2004-05.

This combination, of sharply accelerated employment growth rates and simultaneous increases in unemployment rates caused some surprise.

In explanation, it was pointed out that in the base year,(1999-00), both labour force participation rates and employment levels had been depressed below longer term trend values, partly because of the relatively poor performance of agriculture in that year. The resulting "exaggerated" employment growth rate of 1999-00 to 2004-05 was, therefore, described as "partly a statistical phenomenon".[21] It had been noted

[17] The 61st Round National Sample Survey, *Employment and Unemployment Situation in India 2004-05*, Report No.515 gives details.

[18] For males and females in rural areas, usual status worker population ratios declined between 1993 - 94 and 1999-00, (from 553 to 531 for males, and from 328 to 299 for females), and then rose again in 2004-05, but to just under the 1993-94 levels. In 2004-05, the worker population ratios for rural males and females were 546 and 327 per 1000 persons respectively. In urban areas worker population ratios also declined during the first period, but the subsequent rise was greater – for urban males from 518, in 1999-00, to 549 in 2004-05, and for females from 139 to 166.

[19] See Statement 5.7, page 85, NSS Report No 515, Part I. For rural males and females, and for urban females the share of regular employees went up, but for urban males it declined considerably.

[20] These figures, from Himanshu (2007), are on the Current Daily Status (CDS) basis.

[21] Unni and Raveendran (2007).

also, when the 1999-00 results came out, that workforce participation rates for that year had declined below trend levels, not only for teenagers and young adults who might have been attending schools and other educational and training institutions, but also even for adults in the prime working age groups. This suggests a "discouraged work-seeker effect", where people do not report themselves as seeking or available for work because they have good reasons to think that no suitable work is available.

It is generally conceded, however, that a part of the unexpectedly high employment growth rate for 1999-00 to 2004-05 is real, and that it can be traced at least in part to the fact that a growing share of India's population is now entering the young working age group. An increasingly large number of young people now entering into the labour force but failing to find work may also have contributed to the rise in the unemployment rate.

In short, a defining characteristic of the Indian employment situation during the first five years of the new millennium is the unprecedented combination of greatly improved employment growth rates together with substantially worsened unemployment rates. Unless the large cohort of young people now entering the labour force find productive jobs, the so-called "demographic dividend" could well become the "demographic drag" on labour productivity growth, and hence on poverty reduction processes, in the Indian economy.

This leads to the question: how productive was the employment generated during the 1999-00 to 2004-05 period?

Evidence from the 61st Round suggests that much of the additional employment generated was of poor quality, characterised by low earnings, part time or irregular employment, and work located in informal, "unconventional" settings. Between 1999-00 and 2004-05, real wage growth decelerated significantly as compared with the period 1993-94 to 1999-00. This "was true for rural and urban areas, for agricultural and non-agricultural workers, for males and females and at all levels of education."[22] In urban areas, the average daily earnings of regular workers declined for the first time in decades.[23] The more recent period was characterised by the proliferation of informal, part-time and subsidiary status employment. This included especially subsidiary status, poorly remunerated, self employment and low paid subsidiary status regular waged and salaried employment, such as regular part-time work as domestic servants. Earnings expectations were pitifully low. In rural areas, about 40 percent of the self-employed felt that an income of less than Rs1,000 per month was remunerative enough; in urban areas about 30 percent considered Rs2,000 per month to be remunerative.[24]

The location of employment speaks volumes about the nature of work as of 2004-05. Although in urban areas there was a shift in favour of employment in a conventional enterprises, such as a factory, office or an institution, 40 percent of urban workers had no such conventional place of work. In rural areas, the major shift was towards

[22] Page 504, Himanshu, (2007) CHECK QUOTE
[23] Page 198, Unni and Raveendran, (2007). CHECK
[24] See table , NSS Report No , page .CHECK

home-based work, and 60 percent of workers were employed in non-conventional places of work.[25]

Employment Growth, Structural Change and Poverty Reduction

In India, as in other SAARC countries, there have been substantial productivity gains for a small, but growing segment of the workforce: in particular 'White Collar' workers, and hired regular production and related workers in the non farm sector. But, a relatively larger section of the workforce has gotten left behind in the productivity gains race – namely rural workers, agricultural workers, the petty self-employed, and casual workers in both rural and urban areas. Productivity **is** rising among these workers too, but the gaps between them and the White Collar, and the regular hired non-farm production and related workers are widening.

How has this happened?

Generally, in India as in most South Asian countries, the proportionate shift of workers out of agriculture and into more productive non-farm employment has been too slow to prevent the relative income position of workers in agriculture from worsening in relation to the income position of workers in the non-farm sector. The shift out of petty self employment, in informal non-farm activities as well as in agriculture, also has been too slow to have had a substantial favourable impact on the productivity levels of workers in these activities. Correspondingly, the *increase* in the share of regular waged and salaried workers has either not taken place at all or has been too slow to prevent increases in the share of casual workers – the poorest section of the workforce. These developments have adversely influenced the pace of poverty reduction and the rise of income inequalities.

Does Employment Growth per se Reduce Poverty?

Most people tend to think that it does. In India, the answer is "yes" for the 1999-00 to 2004-05 period of high employment growth as compared with the 1993-94 to 1999-00 period, but not for comparisons with some earlier periods. More importantly it is not true for comparisons at a point in time across Indian states.

In a small exercise done for 16 states in India for the years 1993-94 to 1999-00, employment growth rates failed utterly to account for interstate variations in poverty rate reduction.[26] The reason was that the kind of low productivity employment that many of these people are prepared to accept, especially in backward regions, does not get them out of poverty. Most of these additional jobs are in the informal sector.

A study of non-farm, unorganised sector enterprises done some years ago[27] found that informal employment growth in these enterprises was most rapid in two kinds of states – on the one hand in states like Orissa where labour productivity in unorganised

[25] See page 198, Unni and Raveendran (2007), *op cit.*
[26] This work was done for the SAARC Poverty Profile, 2005, *op. cit.*
[27] Bhalla, Sheila (2003), *The Restructuring of the Unorganised Sector in India*, Report on a Project Funded Under the Planning Commission Scheme of Socio-economic Research.

sector enterprises was the lowest, and on the other hand in states like Haryana, where productivity was the highest. This may be the reason why, in regressions, inter-state variations in employment growth rates fail to account for inter-regional variations in poverty ratio reduction.

This leads to the question: **which kinds of employment changes *do* have a significant impact on poverty reduction?**

A series of investigations[28] using 1999-00 employment data for 15 Indian states confirmed some well known propositions about employment growth and employment structure and their impact on head count poverty ratios and changes in them.

In India rapid poverty reduction has been associated with certain specific kinds of workforce structural change. By far the most important of these is a proportionate shift of workers out of agriculture and into non-farm employment. A high share of agricultural workers in the state workforce is associated with relatively high poverty ratios, and a low share of agricultural workers with lower poverty ratios. Conversely, a high share of non-agricultural workers in the workforce is associated with low poverty ratios and a low share with high poverty ratios. (The relationships are significant at the 97.5 percent level or better.)

A rise in the share of White Collar[29] employment has a weaker, but similar effect. So also does an increase in the share of hired *regular* non-agricultural production workers.

However, detailed subsectoral analysis produced some surprises. Although all the regression coefficients had the expected negative sign, indicating that a relatively high share of each of them was associated with a relatively low poverty ratio, only three subsectors produced R^2 of .30 or greater and levels of significance at the 97 percent level or above. They are: (i) the share of employment in trade, (ii) the share of workers in construction employment, and (iii) the share of workers in financial and related services.

The share of workers in the tertiary sector as a whole was not significant, although the sign was negative. The same was the case for its subsector, community services. More surprisingly, the relatively high shares of workers in transport and related services in some states had no significant relationship with relatively low poverty ratios, which might, in principle, have been expected. In this case, however, it is known that the labour productivity levels in informal sector transport activities have been pulled down in several states due to "distress diversification" of workers out of

[28] The results are reported in the 2005 SAARC Report, *op. cit.* See chapter five, from page 89.

[29] The occupational structure of the workforce is defined internationally in terms of nine occupational divisions: (i) professional, technical and related workers, (ii) administrative and managerial workers, (iii) clerical and related workers, (iv) sales workers, (v) service workers, (vi) agricultural and related workers, (vii), (viii), and (ix), production and related workers, transport workers and labourers, respectively. For purposes of analysis for the SAARC 2005 Poverty Profile, (*op. cit.*), workers in occupational divisions numbered (i) to (v) inclusive were identified as White Collar workers, and workers belonging to categories (vi) to (ix) were counted as Blue Collar workers.

agriculture and into transport activities.[30] The biggest surprise, however, was the finding that relatively high state shares of employment in manufacturing were not associated with low poverty ratios.

The finding that relatively high state shares of employment in manufacturing were *not* associated with low poverty ratios, may be accounted for by two related pieces of information. One is that a dominant and growing share of manufacturing is in the informal (unorganised) sector. The other is that poverty levels in unorganised manufacturing, especially in rural areas, have always been relatively high.

In short, it has been demonstrated that an effective way to reduce poverty in India could be to accelerate the shift of workers from relatively lower productivity agriculture to more productive employment in the non-farm sector. However, excessive focus on the movement of workers into non-farm sector employment may divert attention from the basic facts of the rural situation. These are, first, that most of the poor population lives and works in rural areas, and secondly, that most of those who work in rural areas are either cultivators or agricultural labourers or both. Not surprisingly, both non-farm employment levels and the productivity of local non-farm employment depend crucially on the performance of the agricultural sector.

Taking both production and consumption linkages into account, it has been estimated that, in India, in 2002 close to 60 percent of rural trade and business enterprises were predominantly agriculture related, either on the consumption side, or on he inputs supply, repairs, construction or output using sides.[31] Very few enterprises could be identified which were linked mainly to the requirements of non-farm households or other non-farm users within the village, or to consumers outside the villages. Such non-farm links were found mostly in larger villages.[32]

Moreover, we know that there exists a highly significant link between regional levels of agricultural productivity, on the one hand, and productivity in a wide range of rural non-farm activities on the other. The reason is that both are influenced to a highly significant degree, by regional rural infrastructure endowments.

Focus on Agriculture

In South Asia, there is a huge consensus on what needs to be done on the economic infrastructure front, particularly with respect to raising productivity in agriculture, and rural areas more generally. There is less of a consensus on how to do it, and still less on the issue of how to finance it. Not only this. In recent years, related institutional issues have tended to be pushed completely into the background in official policy documents.

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[30] See chapter VI, Bhalla, Sheila (2003), *The Restructuring of the Unorganised Sector in India*.

[31] Similar results are reported from Bangladesh, where in 2000, nearly 56 percent of rural trade and business enterprises were agriculture-linked. See Hossain, Mahabub, (2005), "Rural Non-farm Economy: Evidence from Household Surveys, *Economic and Political Weekly*, Vol XXXIX, No. 36, pp 4053-4058.

[32] These results, from parallel village studies in prosperous and backward agricultural regions during 2002, are discussed in Bhalla, Sheila (2004), "Employment Density and Linkages of Rural Non-farm Enterprises in Andhra Pradesh and Haryana", *Indian Journal of Labour Economics*, Vol. 47, No. 4, Oct-Dec.

India's National Agricultural Policy 2000, provides an excellent illustration. This document gave top priority to rural electrification, completion of ongoing irrigation schemes and investment in science and technology. It advocated special efforts "to develop marketing infrastructure including techniques of preservation, storage and transportation." It underlined the need to promote the "cooperative form of enterprise in agro-processing."[33] However, it steered clear of institutional issues like land use and water policy, land reform, and the effective implementation of the Minimum Support Price and public procurement system. Issues related to access to the services of rural social infrastructure facilities also were treated as outside its purview.[34]

In short, the mindset associated with the initiation of economic liberalisation policies in 1991, and more recently with membership in the WTO from 1995, has militated against the implementation of even the limited range of recommendations contained in the National Agricultural Policy presented to Parliament in July 2000. In the Indian case, the pattern of government expenditure provides overwhelming evidence that agriculture and rural areas more generally, are just not a priority for governments from 1991 to date.

In India, as elsewhere, the link between productivity raising public investment in agriculture on the one hand and the pace of poverty reduction, on the other, has not only been particularly well documented, the appropriate policy recommendations have been incorporated in official documents from the time of the First Five Year Plan (1952) until the more recent National Agricultural Policy of 2000.

There is, throughout South Asia, abundant evidence of a strong inverse relationship between the prevalence of poverty and access to economic and social infrastructure services. In India, for example, the relationship between interstate variations in an official infrastructure index[35] and the state level head count poverty ratios of 1999-2000 was significant at the 99.7 percent level, with an R2 of 0.5166. Similar results are reported for other countries of the region.[36]
Finally, one concluding point may need to be made.

The danger of focussing on improving economic indicators such as income poverty ratios, labour and land productivity measures, or even employment growth rates, is

[33] Cited in G.S. Bhalla, (2007), *Indian Agriculture Since Independence*, Popular Social Science Series, National Book Trust India, New Delhi, pages 51-52.
[34] For a detailed discussion, see Chand, Ramesh (ed), 2006, *India's National Agricultural Policy: A Critique*, PUBLISHER? New Delhi.
[35] Fifteen states were covered. The infrastructure index used was that developed for the Eleventh Finance Commission.
[36] For example, multiple regression analysis done for the Sri Lanka Millennium Development Goals report (the World Bank, 2005), showed that the percentage of households with electricity connections was inversely related to poverty levels, with every one percent increase in electricity coverage being associated with a 0.35 percent reduction in poverty. See also, Ahmed, R. and M. Hossain (1990), *Development Impact of Rural Infrastructure: A Case Study of Bangladesh*, Research Report No. 83, International Food Policy Research Institute, Washington, D.C.: Latif, Mahammad Abdul (2002), "Income, Consumption and Poverty Impact of Infrastructure Development" in *The Bangladesh Development Studies*, Vol. XXVIII, No. 3, Sept; ILO, Employment strategy Department (2002), *Decent Work for Poverty Reduction: An ILO Contribution to the PRSP in Nepal*; and Government of Pakistan, PRSP Secretariat (2005), *PRSP Annual Progress Report FY 2004-2005*.

that in a liberalising environment, more fundamental human development indicators of *exclusive growth* may be ignored.