

Employment/Unemployment Situations in Post Reform Period: A Study of Rural-Urban Divide

Dastgir Alam¹ & M. Israr Khan²

¹(Assistant Professor) Department of Economics Aligarh Muslim University
Aligarh, Uttar Pradesh

²(Assistant Professor) A & R Economics MJPRU-Bareilly, Uttar Pradesh

e-mail. dastgir_alam@rediffmail.com

Abstract

The paper looks into the employment/unemployment situations in India in rural and urban areas. It is found that the growth of employment opportunities is low in the post reform period as compared to the pre reform period in the rural area. This has led to the positive growth in unemployment in the post reform period while it was negative in pre reform period. In urban areas the growth of employment opportunities as well as unemployment level is low in the post reform period. The problem of unemployment is severe in rural area which needs to be taken up. The required capital formation for employment generation tells us that the intensity of unemployment can be reduced by reallocating more resources in favour of rural areas.

Key Words:

Economic Reform; Employment; Unemployment; Economic Growth; Agriculture ; Allied Sectors; Required Capital Formation for Employment Generation

Introduction

The process of industrialisation during later 1950s and the introduction of green revolution in 1960s along with the

revolution in services sector during 1990s put the Indian economy on the path of growth and development. Generally it is assumed that the good or the bad thing associated with agriculture sector has its impact on the rural economy and the manufacturing and services sectors have their impact on urban economies. The differentiated growth of these sectors of the economy is expected to have differential impact on the rural and urban economy (B. Pulapre, 2010). A high growth of agriculture and allied activities always brings good news for the rural people while urban people receives benefits from the growth of manufacturing and services sectors (Kapsos. S, 2005). Because of this it is believed that the differentiated growth of agriculture & allied activities and manufacturing & services sectors (in terms of solving the problems of masses like poverty and unemployment) has divided the Indian economy into two; rural economy and urban economy where rural economy has always been marginalised by urban economy in terms of investment, development of infrastructure, institutional development, innovation and inventions etc that further widened the gap between these two economy especially in the post reform period (B. Philips, 2009).

The differential growth of rural and urban economies has no doubt some historical reasons but it is also a result of differential rate of capital formation in both the regions. Investment being the main source of economic growth has always been a concern for rural economy. In the early days of planning, the industrial revolution eaten up the desired share of rural areas in capital formation and in the post reform period the neglect of public sector reduces its share in capital formation. This makes the rural economy as distressed economy especially after economic reform. The Eleventh Five Year Plan recognised the pathetic situation of rural economy particularly in the post reform period and talked about the inclusion of every sector of the economy in the process of development and believed over the concept of inclusive growth so that the desired level of employment opportunities can be created to wipe out the tears of unemployed labour force (Plan Document, 2007). Now the Indian economy is at cross road in terms of decision making about allocation of resources i.e. which economy (rural or urban) should get priority. On the one hand growth of manufacturing & services (representing growth of urban economy) is necessary to maintain low level of unemployment in urban areas and a high rate of economic growth to sustain in the globally growing competitive market while on the other hand growth of agriculture is very important for generating income and employment to a large section of the society which lives in the state of unemployment and abject poverty in rural areas (S. Mazumdar, 2008). To look into these matters the present paper tries to analyse that

- (1) How the sectoral growth of the economy has affected the employment/unemployment situation in Indian economy in post reform period.

- (2) How the allocation of resources in terms of investment has affected the employment situation in the Indian economy in post reform period and
- (3) How the allocation of resources should be made to these two economies that will bring equality between rural and urban economy.

Economic Growth and Employment/Unemployment Situations

Economic growth is the most important aspect of economic studies for developed as well as developing economies. There are so many positive impacts of economic growth on an economy among which employment generation is a critical one. By providing employment opportunities, economic growth (reduces the incidence of unemployment) increases income of people and helps in upgrading the standard of living of the society. Because of all these reasons almost all countries developed or developing want to achieve a high and sustained economic growth. But merely a rapid and sustained economic growth may not be able to generate the desired level of employment opportunities. Generally the employment opportunities are created through the growth process when it helps in increasing the productive capacity of the economy. This means that investment led economic growth is critical for employment generation.

The conventional theories of economic growth and unemployment state that neither unemployment influence growth nor that long run growth affects equilibrium level of unemployment (Blanchard, 1997). Later on these thoughts were redefined by endogenous growth model. Some studies found that when economies realise growth it brought inter sectoral change i.e. change in the structure of the economy (Romer, 1990).

This structural change in the economy reduces the employment opportunities and generates structural unemployment in the economy. Technological innovations change the mode of production and also create unemployment in the economy. However, if these two destroyed job opportunities in one firm then create in another firm (Aghion and Howitt, 1994).

In fact unemployment is not a consequence of a single factor. It is created by a number of separate causes in which a system of interconnected factors is jointly responsible for the whole. In developing economies unemployment has always been a serious issue and caused by various factors. In search of high economic growth in minimum time period these economies use technological progress of developed nations (Pigou, 1993). But the adoption of inappropriate policies for higher growth usually resulted in sharp rise in unemployment. The sustenance in competitive market becomes the top priority for a firm. This forced them to adopt inappropriate capital intensive technique of production that becomes the main cause for policy distortion and failure

in achieving the desired level of employment opportunities (Lin, 2004). All these were expected to happen in India too when the economy moved on the path of macro-economic stabilisation and structural adjustment programmes in 1991. In the present section hence we discuss about the employment/unemployment situations in rural and urban areas with reference to the growth performance of the economy.

Employment/Unemployment in Rural Area

Even after 65 years of independence and more than 60 years of economic planning about 68.84 per cent of the population lives in rural areas (Census, 2011) and directly or indirectly depend on rural economy for their livelihood. The National Sample Survey Organisation (NSSO) reveals that the rural economy provides 71.20 per cent of employment opportunity to Indian people.

Table 1
Employment/Unemployment in Rural Area

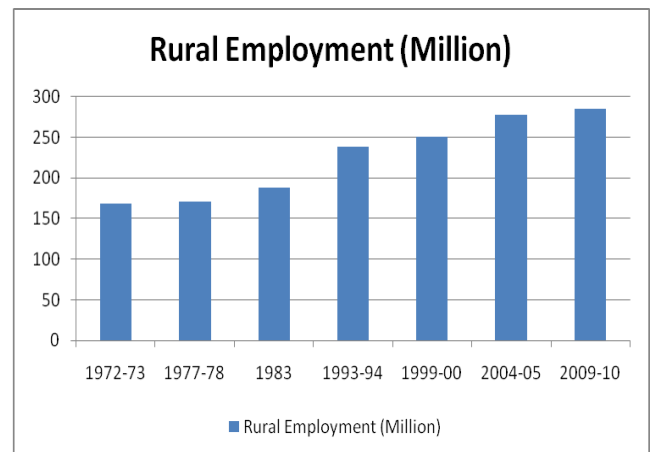
Years	Growth of A & A	Employment (Million)	Unemployment (Million)	Growth in Employment	Growth in unemployment	Unemployment Rate
1972-73		168.65	15.07			8.20
1977-78	4.75	171.04	14.24	1.42	-5.51	7.68
1983	2.98	187.9	18.25	9.86	28.16	8.85
1993-94	3.52	238.75	14.21	27.06	-22.14	5.62
1999-00	3.86	251.22	19.39	5.22	36.45	7.16

2004-05	2.02	278.08	25.09	10.69	29.40	8.28
2009-10	3.57	285.4	20.9	2.63	-16.70	7.32
Growth from 1972-73 to 1993-94		41.56	-5.71			
Growth from 1993-94 to 2009-10		19.54	47.08			

Sources: (1) Employment/Unemployment Report, National Sample Survey Organisation, Ministry of Statistics and Programme Implementation, Government of India, New Delhi, Various Issues at www.mospi.nic.in
 (2) Computed and Calculated from Economic Survey (2011-12), Ministry of Finance, Government of India, New Delhi.

The table 1 gives us detail information about the rural employment/unemployment situations in India along with the growth performance of the agriculture and allied activities because this sector is mainly responsible for providing employment opportunities in rural areas. The table gives us information about employment/unemployment situations in million on current daily status basis along with their growth, unemployment rate and growth of agriculture and allied sector for a period of 1972-73 to 2009-10. Since the data is not available for the period of 1991-92 or 1992-93, the year of 1993-94 may be used to mark the pre and post reform period for the present analysis. On current daily status basis the unemployment rate in rural areas has been pegged below 9.00 per cent. However in the pre reform period it has declined to 5.62 per cent but moved to 7.32 per cent in the post reform period in the year 2009-10. It means that the rural unemployment rate has declined in the pre reform period while it has increased in the post reform period.

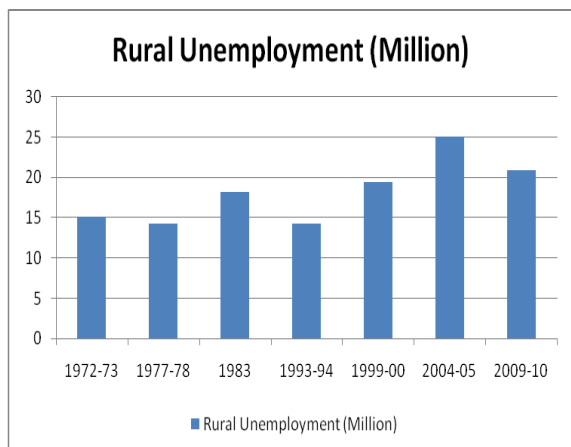
Figure 1



The trend of rural employment is represented in figure 1. In terms of number of people employed in rural areas, there has been much improvement in the pre reform period as compared to post reform period. In the pre reform period the employment level has increased to 238.75 million on current daily status basis in 1993-94 from 168.65 million in 1972-73. In this way there is a rise in employment opportunities in rural area by 70.1 million in the pre reform period. In the year 2009-10 the employment level reached to 285.4 million and there by registered an increase of 46.65 million in employment opportunities. This shows that the pre reform period has been more advantageous in terms of employment generation in rural

areas in comparison to the post reform period. During the pre reform period the employment opportunities have grown by 41.56 per cent from 1972-73 to 1993-94. In the post reform period for the period of 1993-94 to 2009-10, the employment level in rural areas have grown only by 19.54 per cent.

Figure 2



The status of unemployment in rural areas is represented in figure 2. The available trend shows that in the pre reform period there has been fall in the number of unemployed people. But in the post reform period again we have a trend of rise in unemployment level showing that the process and policies of economic reforms have worsen the situation of unemployment in rural areas.

When we look into the relationship between growth of agriculture and allied sectors and growth in employment opportunities, we find that both in the pre and post reform period the growth of agriculture and allied sector have not shown much effect on the growth of employment opportunities. In both the periods the growth in employment opportunities are high even though the agriculture and allied sector has grown very slowly and vice versa. This may lead to the conclusion that economic growth has not been effective in employment generation in rural India. The employment generation in rural India may have been

programme sponsored (poverty alleviation and employment generation) rather than growth sponsored. In the pre reform period more growth in employment opportunities might have been realised because of high employment creation in the public sector undertakings that get eluded in the post reform period by disinvestment policy of the central government. Further the introduction of green revolution may also be responsible for more generation of employment opportunities in pre reform period through establishment of various servicing agencies like supply of improved inputs, storage facilities, marketing institutions, financial institutions etc. In the post reform period there has been absence of such type of innovations in the agriculture sector.

Contrary to the relationship between growth of agriculture and allied sector and employment opportunities, growth of agriculture and allied sector has shown some effect on the growth of unemployment. A growth of agriculture and allied by more than 3.00 per cent has forced the unemployment level to fall in the rural areas in pre reform period and growth of unemployment has become negative. When the growth of this sector has been less than 3.00 per cent, there is positive growth in unemployment level. However in the post reform period even this 3.00 per cent growth has failed in reducing the unemployment level in rural areas initially but the latest survey of NSSO revealed that a growth of 3.0 per cent of agriculture and allied sector became effective in reducing the unemployment level.

Employment/Unemployment Situations in Urban Areas

The urban economy mainly composed of industrial and services sector has got priority to achieve a high and sustained economic growth as well as to provide a sound economic base for the country. This sector also got preference on

account of comparatively high productivity than the agriculture and allied sector. Hitherto government has never left its passion of increasing the employment opportunity through investment in this sector. The employment generation in urban areas has always been an objective of investment in non agriculture and allied sectors. The information about employment/unemployment situations in urban areas is given in table 2 and represented by bar diagram in figure 3 and figure 4 respectively. The table also provides data about the growth of non agriculture and allied sectors as it is more associated with urban areas. The data clearly shows that there is ever increasing trend in the number of people employed in urban areas. In the pre reform period the employment level has increased to 75.18 million in 1993-94 from a merely 36.1 million in 1972-73. In this way there has been an increase of 39.08 million employment opportunities. In the post

reform period the employment level has reached to 115.4 million in 2009-10 from 75.18 million in 1993-94. It means that in the post reform period employment opportunities have increased by 40.22 million. Hence in absolute term the increase in employment opportunities is more in post reform period in comparison to the pre reform period. But in percentage term the increase in employment opportunities is more in pre reform period as compared to the post reform period. In the pre reform period the employment opportunities in urban areas has increased by 108.25 per cent while in the post reform period it has grown by only 53.50 per cent. This high growth in employment opportunities in pre reform period might have been realised because of the huge investment in manufacturing sector particularly by the government in the public sector undertakings where employment generation has always been on the top priority.

Table 2

Employment/Unemployment Situations in Urban Areas

Years	Growth of Non A & A	Employment (Million)	Unemployment (Million)	Growth in Employment	Growth in unemployment	Unemployment Rate
1972-73		36.1	3.53			8.91
1977-78	5.32	42.85	5.02	18.70	42.21	10.49
1983	5.16	51.59	6.08	20.40	21.11	10.54
1993-94	7.93	75.18	6.06	45.73	-0.33	7.46
1999-00	9.79	86.97	7.3	15.68	20.46	7.74
2004-05	8.03	106.83	9.64	22.83	32.05	8.28
2009-10	12.23	115.4	7.1	8.02	-26.35	6.15
Growth from 1972-73 to 1993-94		108.25	71.67			

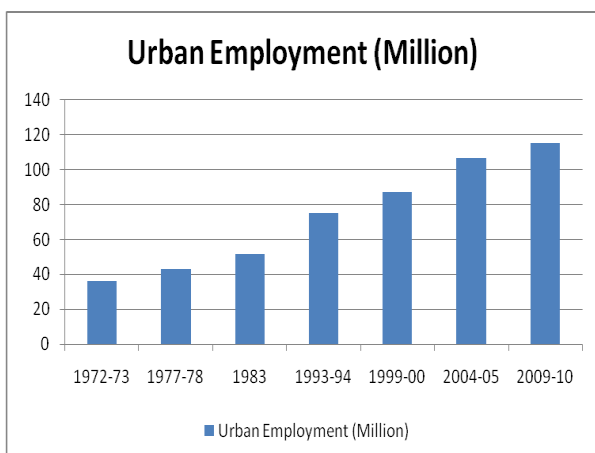
Growth from 1993-94 to 2009-10	53.50	17.16			

Sources: (1) Employment/Unemployment Report, National Sample Survey Organisation, Ministry of Statistics and Programme Implementation, Government of India, New Delhi, Various Issues at www.mospi.nic.in
 (2) Computed and Calculated from Economic Survey (2011-12), Ministry of Finance, Government of India, New Delhi.

In addition to this the use of labour intensive technology in pre reform period may have provided a base for creation of more employment opportunities. The protection and promotion of small and medium enterprises in pre reform period had also helped in generating greater employment opportunities in urban areas. But in the post reform period the situation becomes reverse. In this era we entered in the competitive business environment where the objective of employment generation is replaced by profit making. To sustain in business and maintain the productivity most of the business establishment changed their technologies from labour intensive to capital intensive. The employment generation capacity of non agriculture and allied sector further declined because of continuous fall in the public investment.

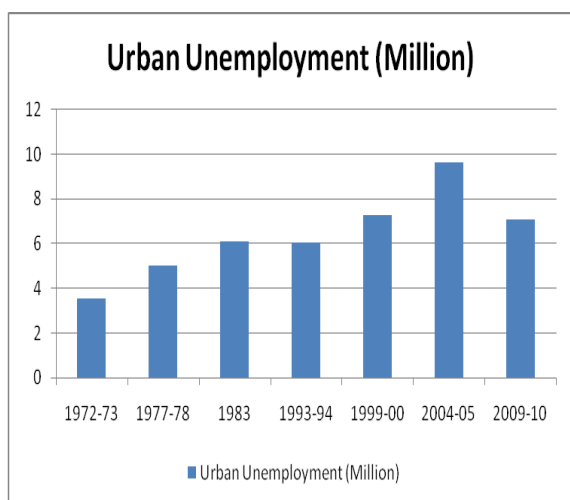
ever increasing trend, except for the year 2009-10. The unemployment level has increased from 3.53 million in 1972-73 to 9.64 million in 20054-05 however it declines to 7.1 million in 2009-10. If we bifurcate it in pre and post reform period then we can see that the unemployment level has increased to 6.06 million in 1993-94 from 3.53 million in 1972-73 in the pre reform period. In the post reform period it has marginally increased to 7.1 million in 2009-10. In this way the growth in unemployment level is 71.67 per cent in the pre reform period while in the post reform period it has increased only by 17.16 per cent in the urban areas. This is also supported by the evidences in terms of unemployment rate. The unemployment rate has been higher in the pre reform period in comparison to the post reform period. In the pre reform period unemployment rate has increased to 10.54 per cent from 8.91 per cent initially however it declined to 7.46 per cent in 1993-94. In the post reform period only a slight increase can be witnessed in unemployment rate when it increased to 8.28 per cent in 2004-05. But it declined to 6.15 per cent in 2009-10 which is the lowest figure for urban unemployment rate. This reveals that the policies of economic reforms have been fruitful for the urban areas where it has helped in reducing the unemployment rate.

Figure 3



As far as unemployment level in urban areas is concerned there has been

Figure 4



The figure of growth rate of non agriculture and allied sector in table 2 represents the annual average growth rate between the two mention periods. For example a growth figure of 5.32 per cent represents the annual average growth of non agriculture and allied sectors during the period 1972-73 to 1977-78 and so on. When we compare this growth of non agriculture and allied sectors with the growth in employment level, we find that in the pre reform period an increase in growth rate of non agriculture and allied sectors also increases the growth rate of employment level. However this is not valid in the post reform period. In case of growth of unemployment level, only a growth of 7.93 per cent has shown some effectiveness in reducing the unemployment level in the pre reform period. This requirement has further increased in the post reform period. A negative growth has been realised in unemployment level only when the non agriculture and allied sectors grew by 12.23 per cent.

Capital Formation and Employment Opportunities

Allocation of resources for realisation of desired goals has always been the central problem of every economy. The problem becomes more

crucial for a developing economy like India where there is scarcity of capital since the independence (G. Ramesh and S. M. Lokare, 2008). Generally resources have been allocated in India according to the immediate needs of the economy. From the First Five Year Plan to the Eighth Five Year Plan normally resources were allocated to different sectors of the economy to realise the broad goals of high and rapid economic growth, self reliance, realisation of rapid industrial growth, balanced regional growth etc (Bhinde. S and Kalirajan. K. P, 2000). It was only the Ninth Five Year Plan when the Planning Commission of India declared that the Plan aims at ‘growth with equity and social justice’ because by that time it was realised that the differentiated growth or lopsided growth of various sectors of the economy has divided the Indian economy into two economies; rural economy and urban economy where there is widespread gap with respect to almost all socio economic parameter (Plan Document, 1997).

The economic growth is not self sufficient in generating employment opportunities. The employment opportunities are provided by the productive capacity of the economy. As high as the productive capacity of an economy is, the potential employment opportunities are high and vice versa. As mentioned by Harrod (1939) and Domar (1946) also, investment plays dual role in the economy. On the one hand it creates income to people through providing employment opportunities on other hand it increases the production of goods and services. In this way investment becomes more important than growth of the economy with respect to creation of employment opportunities. Investment is generally represented by capital formation and measured by change in it. The table 3 and 4 give us information about the capital formation in rural and urban areas respectively along with the employment

level. On the basis of information about capital formation and employment level the required capital for employment generation is calculated by taking the ratio of size of capital formation and employment level.

Size of capital formation

Required Capital for Employment Generation =

Size of employment opportunities

Since the size of capital formation is available in terms of Rs. Crores and size of employment opportunities is available in terms of million, the above ratio will give us information about the required

capital in Rs. Crores for generation of one million employment opportunities. Table 3 shows that the required capital for generation of one million employment opportunities is always increasing in rural areas. It has increased to Rs. 67.98 crores in 1993-94 from a very low amount of Rs. 9.45 crores in 1972-73 in the pre reform period. In the post reform period it has increased to Rs. 642.48 crores in 2009-10 from Rs. 67.98 crores in 1993-94. In this way the required capital for generation of one million employment opportunities has increased by 619.36 per cent in the pre reform period. This figure stood at 845.10 per cent in the post reform period that might be caused by rapid growth in prices of factors of production.

Table 3

Capital Formation and Employment Generation in Rural Areas

Years	Employment (Million)	Capital Formation in A A (Rs. In crores)	Required Capital
1972-73	168.65	1594	9.45
1977-78	171.04	3044	17.80
1983	187.9	5605	29.83
1993-94	238.75	16230	67.98
1999-00	251.22	50151	199.63
2004-05	278.08	71805	258.22
2009-10	285.4	183363	642.48

- Sources:** (1) Employment/Unemployment Report, National Sample Survey Organisation, Ministry of Statistics and Programme Implementation, Government of India, New Delhi, Various Issues at www.mospi.nic.in
 (2) Computed and Calculated from Economic Survey (2011-12), Ministry of Finance, Government of India, New Delhi. Various Issues.

For the urban areas the required capital for generation of one million employment opportunities has always been greater in comparison to rural areas. The required capital formation in non agriculture and allied sectors was Rs.197.37 crores in 1972-73 that increased to Rs. 2227.96 crores in 1993-94 in the pre reform period. In the post reform period it increases to Rs. 17742.13 crores in 2009-10 for generation of one million employment opportunities. It means that in the urban areas for generation of one million employment opportunities the required capital has increased by 102.88 per cent in the pre

reform period whereas in the post reform period it has increased by 696.34 per cent. It can be therefore concluded that in rural as well as urban areas the growth in required capital for generation of one million employment opportunities has been higher in the post reform period in comparison to the pre reform period. A comparative view of required capital for employment generation in rural and urban areas tells us that this requirement is 20.88 times of rural areas in urban regions in 1972-73 that increased to 27.16 times in 2009-10.

Table 4

Capital Formation and Employment Generation in Urban Areas

Years	Employment (Million)	Capital Formation in Non A & A	Required Capital
1972-73	36.1	7125	197.37
1977-78	42.85	15941	372.02
1983	51.59	37760	731.92
1993-94	75.18	167498	2227.96
1999-00	86.97	443848	5103.46
2004-05	106.83	883241	8267.72
2009-10	115.4	2047442	17742.13

- Sources:**
- (1) Employment/Unemployment Report, National Sample Survey Organisation, Ministry of Statistics and Programme Implementation, Government of India, New Delhi, Various Issues at www.mospi.nic.in
 - (2) Computed and Calculated from Economic Survey (2011-12), Ministry of Finance, Government of India, New Delhi. Various Issues.

Presently according to the National Sample Survey Organisation report of 2009-10 nearly 3 times more unemployed people are living in the rural areas as compared to urban areas. At the same time the required capital formation for

generating one million employment opportunities is 27.61 times lower in the rural areas as compared to urban areas. In this situation it may be advisable to reallocate some resources from urban areas to rural areas. This will increase the

employment opportunities at national level.

Conclusion

The above discussion about the employment/unemployment situations in India states that in the rural areas unemployment rate has declined in the pre reform period whereas in the post reform period it has increased. In case of urban areas though there has been decline in the unemployment rate in the pre reform period however the unemployment rate is lowest in the post reform period. Currently rural areas provide 2.47 times more employment opportunities than the urban areas. From the view point of employment situations in rural areas the pre reform period has been better than the post reform period. In the pre reform period not only the growth of employment opportunities is high as compared to the post reform period but also there is negative growth in unemployment level. A similar trend can also be seen in urban areas with respect to employment status. The growth of employment level is much higher in the pre reform period than the post reform period. But a reverse trend can be witnessed in case of urban unemployment as compared to rural areas. The growth of urban unemployment is not only positive in the pre reform period but also higher than the post reform period.

The growth of agriculture and allied sector do not seem to be effective in employment generation in rural areas for both pre and post reform period. A high growth of agriculture and allied sectors is accompanied by the low growth in employment opportunities and a low growth is associated with high growth in employment opportunities. Opposite to this the growth in unemployment is supposed to be affected by the growth of agriculture and allied sectors in rural areas in the pre reform as well as post reform period. The case of urban areas is completely different from rural areas.

Whether it is pre or post reform period the growth of non agriculture and an allied sector has to do nothing with the growth of employment or unemployment.

Lastly keeping in mind the comparative size and severity of the problems of unemployment in rural areas and the required amount of capital for generation of employment opportunities, a change in the resource allocation is required. By reallocating or changing the pattern of capital formation in favour of rural areas employment generation can be increased at national level.

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