



Role of Rural Economy of India

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Abstract

India is the second highest populated country in the world. India is known as an agricultural country, as most of the population of villages depends on agriculture. Agriculture forms the backbone of the country's economy. The agricultural sector contributes most to the overall economic development of the country. For centuries together, the Indian village has been a self-sufficient and self-contained economy. India is predominantly a rural country with two third populations and 70 per cent workforce residing in rural areas. Rural economy constitutes 46 per cent of national income. Despite the rise of urbanisation more than half of India's population is projected to be rural by 2050. Thus growth and development of rural economy and population are a key to overall growth and inclusive development of the country. Traditionally, agriculture is the prime sector of rural economy and rural employment. The transition in composition of output and occupation from agriculture to

more productive non-farm sectors is considered as an important source of economic growth and transformation in rural and total economy The study analyses changes in rural economy and employment during the last forty years covering the period 1970-71 to 2011-12. The new economic policy of 1991 was the turning point of the Indian economy. A lot of changes in the economy have been occurring due to the adoption of 'The New Economic Policy' especially, in the services sector. The current situation in India is that the growth rate of services has overtaken both agriculture and industry. Service sector has contributed 63 per cent in the GDP which is highest, as compared to agriculture and industry sector.

Introduction

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together, the Indian village has been a self-sufficient and self-contained economy. During the past forty years, rural reconstruction and development have been the major thrust of economic planning, which has caused a rapid transformation in the Indian rural economic structure.

India has classified and tracked its economy and GDP in three sectors: agriculture, industry and services. Agriculture includes crops, horticulture, milk and animal husbandry, aquaculture, fishing, sericulture, aviculture, forestry and related activities. Industry includes various manufacturing sub-sectors. India's definition of services sector includes its construction, retail, software, IT, communications, hospitality, infrastructure operations, education, health care, banking and insurance, and many other economic activities

These changes have taken place in spheres, such as land reforms, agriculture, animal husbandry, supplies and marketing, village industries, rural leadership, village administration, etc. With the help of the rural development programmes, a cultivator is able to take advantage of the modern technological facilities in his agricultural operations. These cultivators are now using modern agricultural implements and high-yielding varieties of seeds

and fertilizers. Several other welfare services were introduced, such as opening up of schools, primary healthcare centres, improving the means of transport and communication, and spread of mass media services to rural areas, etc. These welfare services have materially affected the rural life.

The transition in the rural economy in the last four decades is examined based on the analysis of growth and composition of output and employment. A reduction in the share of agriculture, and a dominance of non-farm activities in the rural economy is noted from 2004–05 onwards. However, agriculture continues to be the predominant source of employment. Employment in the construction sector increased substantially, but was not large enough to absorb workers leaving agriculture, resulting in a decline in rural employment after 2004-05. This shows that while output generation has shifted to services, employment generation in services has lagged far behind. India ranks second worldwide in farm output. Agriculture and allied sectors like forestry, logging and fishing accounted for 17 per cent of the GDP and employed 49 per cent of its total workforce in 2014. Industry accounts for 26 per cent of GDP and employs 22 per cent of the total workforce. The services sector has the

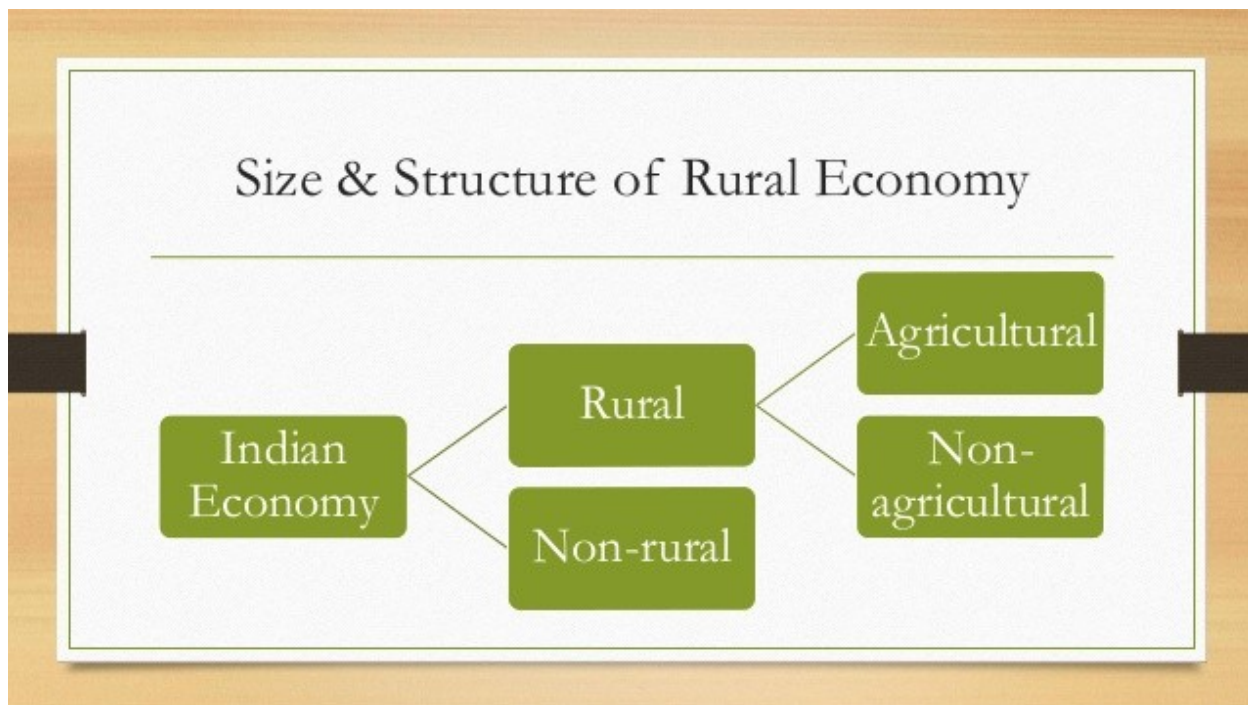
largest share of India's GDP, accounting for 57 per cent in 2012, up from 15 per cent in 1950.

The objective of the present study is to analyse rural employment structure change in Indian economy.

Structure of Rural Economy

Indian economy has experienced a gradual structural change. Though the pace of the structural transformation was more or less slow throughout the pre-reform period, it has become rapid after the introduction of new economic reforms in the decade of the nineties. At the

time of independence, Indian economy was predominantly rural and agricultural. At the beginning years of the First Five-year Plan, contribution of the primary sector (agriculture, forestry and logging, fishing) in GDP at factor cost was largest followed by tertiary sector and secondary sector respectively. Thereafter the major drive towards diversification and modernization of the Indian economy in the following plans resulted in increased shares of the secondary and tertiary sectors and declined share of the primary sector in the national product.



The main agricultural products that controls the fate of the Rural Economy in India are as follows -

- **Food Grains** - Rice, Wheat, Pulses, Cereals, Corn, Maize, Rice Bran Extractions, Sorghum, Soy meal, Suji, Parmal, Lentils, Jowar, Bajra, Chick pea.
- **Fruits and Nuts** - Cashew Kernels, Cashew Nut, Cashews, Almonds, Roasted Dry Fruits, Peanuts, Groundnut, Walnut Kernels, Walnuts, Indian Peanuts, HPS Groundnuts.
- **Fruits** - Bananas, Beans, Cherry, Cucumbers, Dried Fruits, Dried Truffles, Carrots, Lemon, Mandarins, Mango steens, Meslin, Shallots, Apples, Asparagus, Grapes, Oranges, Gherkins, Turnips, Oranges, Papaya, Pineapple.
- **Vegetables** – Potatoes, Bitter gourd, Stripe Gourd, Pumpkin, cauliflower, Cabbage, Tomato, Onion, Green Pepper, Drum Sticks, Lady's finger, Banana, Papaya, Spinach, Cucumber, Mushroom, Mushroom Spawn, Radiata.
- **Seeds, Buds, Plantation and Related Products** - Basil Seed, Cumin seeds, Dill Seed, Buds, Celery Seed, Hybrid Seeds, Sesame Seeds, Sesbania Seed, Sunflower Seeds, Mustard Seeds, Oil Seeds, Plant Products, Plantation, Plants, Psyllium Seed, Fennel Seed, Fenugreek Seed, Herb Seeds, Tamarind Seed, Vegetable Seeds.
- **Spices** - Black Pepper, Chilli Powder, Chillies, Cinnamon, Cloves, Coriander Powder, Cumin, Curry Powders, Dry Ginger, Dry Red Chilly, Cardamom, Anise, Salt, Onion Powder, Pepper, Fenugreek, Clove, Ginger, Turmeric, Turmeric Powder.
- **Tea and Coffee** - Black Tea, Coffee, Coffee Beans, Darjeeling Teas, Assam Teas, Instant Coffee, Leaf Coffee, Leaf Tea, Packaged Tea, Green Tea, CTC Teas.
- **Tobacco and Tobacco Products** - Beedi, Betel nut Leaves, Betel nut, Bidi Leaves, Chewing Tobacco, Cigarettes, Arecanut, Jarda, Scented Tobacco, Smoking Tobbacco, Snuff, Opium, Pan, Chatni, Pan Masala, Gutkazarda, Zafrani Zarda.
- Cotton, Rubber, Jute etc..

Role of Rural Areas in Indian Economy

Table 1
Share of rural areas in total NDP and workforce

(per cent)

Year	Economy	Workforce
1970-71	62.4	84.1
1980-81	58.9	80.8
1993-94	54.3	77.8
1999-2000	48.1	76.1
2004-05	48.1	74.6
2011-12	46.9	70.9

Source: National Institution for Transforming India NITI Aayog

Table 1 shows the contribution of the rural areas in economy of India for the period 1970-71 to 2011-12 is seen from its share in national output and employment. The rural areas engaged 84.1 per cent of the total workforce and produced 62.4 per cent of the total net domestic product (NDP) in 1970-71. Subsequently, rural share in the national income declined sharply till 1999-00. Rural share in total employment also witnessed a decline but its pace did not match with the changes in its share in national output or income. The declining contribution of rural areas in national output without a commensurate reduction in its share in employment implies that a major portion of the overall economic growth in the country came from the capital-intensive sectors in urban areas without generating significant employment during the period under

consideration. Notwithstanding, the difference between the rural share in output and employment increased from 22 percentage points in 1970-71 to 28 percentage points in 1990-2000. After 1999-00, growth rate of rural economy picked up the pace and reached at par with the growth rate of urban economy. This led to stabilization in rural contribution in total NDP at around 48 per cent. The rural share in national NDP dropped slightly during 2004-05 to 2011-12 despite acceleration in growth rate. On the other hand, the rural share in total workforce declined steadily from 76.1 per cent in 1999-00 to 70.9 per cent in 2011-12. Due to faster decrease in the rural share in total employment than in national NDP, difference between the rural share in output and employment narrowed down to 24 per cent by the year 2011-12.

Table 2
Sectoral share in NDP and employment in rural areas: 1970 to 2012

(per cent)

Share in rural NDP (at current prices)				
Year	Agriculture	Manufacturing	Construction	Services
1970-71	72.4	5.9	3.5	17.1
1980-81	64.4	9.2	4.1	20.6
1993-94	57.0	8.2	4.6	26.8
1999-00	51.4	11.1	5.6	28.6
2004-05	38.9	11.5	7.8	37.3
2011-12	39.2	18.4	10.5	27.0
Share in rural employment				
Year	Agriculture	Manufacturing	Construction	Services
1972-73	85.5	5.3	1.4	7.3
1983	83.6	6.2	1.3	8.8
1993-94	78.4	7.0	2.4	11.4
1999-00	76.3	7.4	3.3	12.5
2004-05	72.6	8.1	4.9	13.9
2011-12	64.1	8.6	10.7	15.5

Source: National Institution for Transforming India NITI Aayog.

Table 2 show the share of agriculture in the rural NDP declined from 72.4 per cent to 57 per cent by the year 1993-94 . Among the non-farm sectors, manufacturing, construction and services sectors experienced 5.18, 3.94 and 6.10 per cent annual growth, and their share in rural NDP increased by 2, 2 and 10 percentage points

during the pre-reforms period, respectively. During the post-reform period (1993-94 and 2004-05), growth in agricultural sector decelerated to 1.87 per cent, whereas growth rate in non-farm economy accelerated to 7.93 per cent. The effect of slowdown in agriculture on rural economy was offset by significantly

higher growth in non-farm sectors, which accelerated growth rate in rural economy to above 5 per cent as compared to 3.72 during the pre-reforms period. These changes further reduced the share of agriculture in rural economy from 57 per cent in 1993-94 to 39 per cent in 2004-05. Thus, rural economy became more non-agricultural than agricultural by the year 2004-05. Among the non-farm sectors, services, manufacturing and construction sectors constituted 37.3, 11.5 and 7.8 per cent share in rural output in 2004-05, respectively (Table 2).

During the period 2004-05 to 2011-12, agriculture sector witnessed revival and registered impressive annual growth rate of 4.27 per cent. Similarly, non-farm sectors growth accelerated to 9.21 per cent. Based on acceleration in growth in agriculture as well as nonfarm sectors, this period is termed as the “period of economic acceleration”. Annual growth in the overall rural economy during this period was 7.45 per cent. It is worth pointing

that the period 2004-05 to 2011-12 witnessed much higher increase in agricultural prices compared to non-agricultural prices and growth rate in agriculture and non-farm sectors at current prices was almost the same. Therefore, the share of agriculture in rural NDP at current prices did not decline further and stood at marginally higher level of 39.2 per cent in 2011-12 over the year 2004-05.

Within non-farm sectors the growth in services sector output decelerated to 3.48 per cent after 2004-05 as compared to 8.55 per cent growth during the preceding decade. On the other hand, manufacturing and construction sectors witnessed impressive growth of 15.87 and 11.49 per cent, respectively between 2004-05 and 2011-12. Consequently, in these seven years the share of services sector declined from 37.3 to 27.0 per cent whereas the share of manufacturing in rural economy increased from 11.4 to 18.4 per cent and construction sector share increased from 7.8 to 10.5 per cent.

Table 3
Changes in population and economically active persons in rural areas between 2004-05 and 2011-12

(million)

Particular	Male		Female		Persons	
	2004-05	2011-12	2004-05	2011-12	2004-05	2011-12
1. Population	401	432	379	410	780	842
2. LFPR (%)	56	55	33	25	45	41
3. Labourforce	223	239	126	104	349	342

4. Workforce	219	235	124	102	343	336
4.1 Agriculture	146	139	103	76	249	216
4.1.1 Cultivators	93	92	67	49	160	141
4.1.2 Agril. labour	53	48	37	27	89	75
4.2 Non-farm	73	95	21	26	94	121

Table 3 shows during the period of high output growth and falling employment (2004-05 to 2011-12), rural population increased by 62 million, distributed almost equally between male and female. As indicated by labour-force participation rate (LFPR), the proportion of male population joining labour force remained almost unchanged (55 per cent) and 16 million out of 31 million incremental male population joined labour-force between 2004-05 and 2011-12. However, female labour-force participation declined significantly from 33 per cent in 2004-05 to 25 per cent in 2011-12, resulting in decline in the female labour-force by 22 million. This led to a net decline of about 7 million in rural labour-force (male + female) between 2004-05 and 2011-12. Interestingly, NSSO data did not show any change in unemployment (based on usual status) during this period which implies that the workforce in rural areas reduced by a similar magnitude as in the labour-force. Based on these evidences it is inferred that the decline in labour-force and in its sub-set (workforce) was primarily due to the withdrawal of females from labourforce

(workforce) during the period under consideration.

Conclusion:

The major conclusions, which emerge from the above analysis, can be outlined as follows. We find a continuous process of diversification of the rural workforce from agriculture to the non-agricultural sectors, especially to the tertiary non-farm activities such that the rate of diversification of the workforce from farm to non-farm employment is much faster during the post-reform period as compared to the pre-reform period. The sharp fall in the growth rate of agriculture during the post-reform period is offset by the growth rate of the population, and this might have caused a disparate movement of the workforce to non-farm activities. The employment insensitive growth raises serious concerns over the capacity of the rural economy to provide productive jobs to the rising population and workforce moving out of agriculture. Among non-farm sectors, deceleration in employment growth was experienced in manufacturing and

services sector; but construction sector witnessed sharp acceleration in employment expansion with the passage of time. After 2004-05, rural areas witnessed negative growth in employment despite 7.45 per cent annual increase in output. It is pertinent to explore whether the decline in rural workforce between 2004-05 and 2011-12 was on account of rising unemployment or due to change in labour-force itself? It would also be interesting to know the status of the persons who left workforce and the sectors where such changes took place. These aspects are analysed by examining household-type and gender-wise changes in labour-force participation and workforce distribution across sectors, and by tracking the activity status of not-in-labour force population between 2004-05 and 2011-12. One of the reasons for the much higher growth in rural workers in construction over manufacturing or services sectors is fewer requirements of skills and education in construction activities.

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