

Contribution of Rural Areas in Indian Economy: A Review

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Abstract

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 employment¹ (Table 1). 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 1999-00.

Table 1. Share of rural areas in total NDP and workforce

Year	(per cent)	
	Economy	Workforce
1970-71	62.4	84.1
1980-81	58.9	80.8
1993-94	54.3	77.8
1999-00	48.1	76.1
2004-05	48.1	74.6
2011-12	46.9	70.9

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

1. Structural Changes in Output and Employment in Rural India

During the four decades from 1970-71 to 2011-12, India's rural economy expanded from Rs. 229 billion to Rs. 34167 billion at current prices and from Rs. 3199 billion to Rs. 21107 billion at 2004-05 prices. In the same period, employment expanded from 191 million to 336 million. Thus, despite almost seven times increase in output in rural India the employment could not even double in a long period of four decades.

The growth rates in output and employment show large variations across sectors and over different period, which is very useful in understanding the transition in rural economy in the country. The sector-wise growth rate in NDP and employment during three sub periods viz. 1970-71 to 1993-94 (termed as pre-reform period), 1993-94 to 2004-05 (termed as post-reform period) and 2004-05 to 2011-12 (termed as period of economic acceleration) are presented in Table 2 and sectoral composition is presented in Table 3.2.

Table 2 Growth rates in rural NDP (at 2004-05 prices) and rural employment

Period	Agriculture	Manufacturing	Construction	Services	Non-agriculture	Total	(per cent)
Net Domestic Product (at constant prices)							
1971-94	2.57	5.18	3.94	6.10	5.70	3.72	
1994-05	1.87	8.38	7.92	8.55	7.93	5.06	
2005-12	4.27	15.87	11.49	3.48	9.21	7.45	
Employment (usual status)							
1973-94	1.72	3.55	4.82	4.51	4.22	2.16	
1994-05	0.74	2.79	8.32	3.25	3.70	1.45	
2005-12	-2.04	0.67	12.09	1.35	3.65	-0.28	

The period 1970-71 to 1993-94 witnessed 2.57 per cent annual growth in the NDP of agriculture sector as compared to 5.70 per cent annual growth in non-farm sectors (Table 3.1). As a consequence, the share of agriculture in the rural NDP declined from 72.4 per cent to 57 per cent by the year 1993-94 (Table 2). 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-

5. 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).

Table 3. Sectoral share in NDP and employment in rural areas: 1970 to 2012

Year	Agriculture	Manufacturing	Construction	Services	(per cent)
Share in rural NDP (at current prices)					
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				
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

Note: Shares do not sum up to 100 due to exclusion of some minor sectors.

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 non-farm 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.

Growth pattern in various sectors reveal sizable diversification of the rural economy towards non-farm sectors. From economic development point of view, similar trend and pattern should be reflected in the employment. This was examined from employment data in successive NSS rounds corresponding to the years for which data on rural-urban distribution of national income was available.²

A perusal of Table 3.1 shows that rural employment and output followed different growth patterns. Rural employment showed 2.16 per cent annual growth rate during the pre-reform period, which decelerated in the post-reform period to 1.45% and turned negative (-0.28%) in the period of economic acceleration. The output growth rate in the same sub-periods accelerated.³ Thus, employment increased at a much lower rate compared to output and it even declined in the wake of high growth in output post 2004-05.

The main reason for sluggish growth followed by negative growth in rural employment is that non-farm rural sectors could not absorb the labour-force leaving agriculture. The results presented in Table 3.1 also imply that employment elasticity in rural areas declined over time and has reached the negative range after 2004-05. 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 expansion of time.

4.Reasons behind Post 2004-05 Changes in Rural Employment

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.

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 (Table 4.1). As indicated by labour-force participation rate (LFPR), the proportion of male population joining labour force remained almost unchanged (55%) 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.

It is worth noting that female withdrawal from labour-force happened across all types of households in the rural areas. This is clearly visible from the increase in „not-in-labour force“ to population ratio⁴ for the female. This ratio for the female belonging to agricultural labour, cultivator, and non-farm households, increased by 8.49, 6.05 and 4.63 percentage points between 2004-05 and 2011-12, respectively (Table 4). Withdrawal of female from labour-force was highest among agricultural labour households followed by cultivators and non-form households both in percentage and absolute terms. In the case of male, withdrawal from work-force was found only among the agricultural labour households.

Table 4. Changes in population and economically active persons in rural areas between 2004-05 and 2011-12

Particulars	(million)					
	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

Some scholars have offered explanation for the withdrawal of female from the labour-force (Mazumdar and Neetha 2011; Rangarajan *et al* 2011; Kannan and Raveendran 2012; Abraham 2013; Rangarajan *et al* 2013; Chand and Srivastava 2014). One of the reasons for the fall in female LFPR is reported to be their increased enrolment in education (Rangarajan *et al* 2011) which is seen across all household-types between 2004-05 and 2011-12 (Table 4.2). Among the household-types, the increase in the share of education in total “not-in-labour-force female” population was 3 percentage points for agricultural workers as compared to 1.4 percentage points for non-farm households. Similarly, male not-in-labour-force population going for education witnessed substantial increase across all household types during the period under consideration.

Increasing enrolment for education is a desirable trend in terms of improvement in education level and skills of the persons. But the real challenge will be to create employment opportunities for those educated persons who join the labour-force after acquiring the education in the near future. Most of the employment opportunities have to be created in non-farm sector as the natural choice of the educated youth would be to join more productive non-farm sectors instead of agriculture.

It is interesting to note that education accounted for one third of the entire reduction in female labour-force, whereas the withdrawal of male counterparts from labour-force (from agriculture) was same as the increase in education. A large number of female, withdrawn from labour-force, confined themselves to household activities as shown by the increasing share of not-in-labour-force female population in the category of domestic activities during the period under consideration (Table 4.2). The highest increase in the proportion of female withdrawing from farm work and staying back at home is reported in the case of agricultural labour households. Further, increase in proportion of female in domestic activities is also noticed in the case of non-farm rural households. This is a puzzle as to why women of labour households, whose economic conditions are not very good,⁵ chose to withdraw from workforce and stay back in households.

Table 5. Reason-wise distribution of ‘not-in-labour force’ population in rural areas

(per cent)

Household Type	Education		Domestic activities		Others*		Not-in labour-force (%)	
	2004-05	2011-12	2004-05	2011-12	2004-05	2011-12	2004-05	2011-12
Male								
Cultivator	62.9	71.3	0.8	0.8	36.3	27.9	44.3	44.1
Agril. labour	53.7	67.9	1.1	0.9	45.2	31.2	43.2	42.5
Agril. worker	59.5	70.2	0.9	0.9	39.6	29.0	43.9	43.5
Non-farm	58.9	63.4	0.9	1.0	40.2	35.6	48.1	47.8
Rural worker	59.3	67.1	0.9	0.9	39.8	32.0	45.4	45.3
Female								
Cultivator	29.1	31.5	48.3	52.2	22.7	16.3	74.9	80.9
Agril. labour	28.1	32.5	42.7	49.0	29.2	18.6	65.3	73.8
Agril. worker	28.8	31.8	46.3	51.1	25.0	17.0	71.2	78.5
Non-farm	27.9	29.3	48.1	51.9	24.0	18.8	81.7	86.3
Rural worker	28.4	30.7	47.0	51.5	24.6	17.8	75.1	81.9
Person								
Cultivator	42.2	46.3	29.9	33.1	27.9	20.6	59.1	61.8
Agril. labour	38.5	45.5	25.9	31.2	35.7	23.2	54.1	58.0

Agril. worker	40.9	46.0	28.5	32.5	30.7	21.5	57.2	60.5
Non-farm	39.5	41.6	30.4	33.5	30.0	24.9	64.8	66.8
Rural worker	40.3	44.0	29.2	33.0	30.4	23.0	59.9	63.2

*others include children of age 0-4 years age, pensioners, disabled persons, beggars, prostitutes, etc

One argument is that high growth in agricultural output and terms of trade for agriculture during 2004-05 to 2011-12 led to sharp rise in income of farmers as well as agricultural labour⁶ in this period which induced withdrawal from farm work. This seems to be a part explanation which can hold in case of some households who realized substantial increase in their income. Some scholars argue that the female withdrawal from labour-force might be due to the reversal of an exceptional increase in female labour-force caused by agrarian distress during the earlier period 1999-2000 to 2004-05 (Abraham, 2009; Thomas, 2012). However, empirical evidences refute such arguments because the reduction in female LFPR was not confined to only agricultural households but across all household types in rural areas. It is also pertinent to mention that Annual Employment - Unemployment Surveys by the Labour Bureau indicate further decline in female LFPR between 2011-12 and 2015-16.

Some other reasons for reduction in workforce seem to be:

- (i) increase in reservation wage and non-availability of suitable work at that wage rate,
- (ii) manufacturing jobs away from the place of the habitation, discouraging female to go for it,
- (iii) lack of skill to get well paid non-farm job, and
- (iv) rising tension between labour and employer in agriculture due to changing social relationship between them (Chand and Srivastava 2014).

Apart from withdrawal of labour force/workforce, sizable occupational shifts in workforce were also observed between 2004-05 and 2011-12. Out of 33 million workers who left agriculture⁷ 27 million (81%) were female and 6 million (19%) were male (Table 4.1). Further, outgoing workforce from agriculture comprised both cultivators and agricultural labours with their respective shares of 56 per cent and 44 per cent. It is worth mentioning that out of 27 million female workers who left agriculture, only 5 million joined non-farm sectors and rest withdrew from labour-force itself. On the

other hand, entire 6 million male workers who left agriculture as well as 16 million incremental male labour-force joined non-farm sectors between 2004-05 and 2011-12. Based on these evidences it can be concluded that (a) rural workforce witnessed de-feminization and (b) employment diversification towards non-farm sectors was biased against female

5. Conclusions

The empirical evidences on the changes in rural economy during the past four decades lead to following conclusions and strategic options to promote pro-employment and equitable growth in the rural areas.

- About half of the national income and more than two third of the total employment is generated in rural areas. Apart from producing almost all agricultural output, rural areas contributes about half of the manufacturing and construction sectors output and one quarter of the services sectors output in the country. The rural areas are characterized with the low level and wide disparity in worker productivity.
- The declining rural share in national output without a commensurate decline in its share in total employment during the past four decades implies that a much faster growth in capital-intensive sectors in urban areas did not generate adequate employment to absorb rural



labour.

- The higher dependency on rural areas for employment is a major reason for low level of per worker income. Temporally, contribution of rural areas in total output and employment registered striking changes across different sectors. The production base of manufacturing sector shifted to rural areas significantly, but without a commensurate increase in rural employment during the past forty years preceding 2011-12. The services sector lost heavily to urban areas both in terms of output and employment. It was only the construction sector where rural share in both output and employment improved and employment grew at a faster rate as compared to output. Although construction activities improve rural infrastructure and have a multiplier effect on the economy, proportionately less output growth than the employment indicates a limited productive employment generation capacity in this sector.
- During the four decades from 1970-71 to 2011-12, rural output increased almost seven times (at constant prices) and rural economy has now turned more non-agricultural with the share of agriculture in rural income reduced to 39 per cent. However, the rural employment during this period could not even double. In fact the employment growth decelerated over time and reached a negative range after the year 2004-05. The decline in rural employment between 2004-05 and 2011-12 was due to withdrawal of labour force from the agriculture sector, majority of whom did not join the non-farm sectors. The employment insensitive growth in rural areas warrants special attention towards the non-farm sectors, particularly manufacturing and services sectors, to provide productive employment to the rising population and labour force leaving agriculture.
- Contrary to a common perception the

evidences point out defeminisation of rural workforce between 2004-05 and 2011-12 as female workers withdrew from agriculture work in large numbers. About one third of the entire reduction in female labour force got engaged in education activities, while rest of them confined themselves in household activities. Increasing enrolment for education is a desirable trend in terms of improvement in their education level and skills. Greater efforts will be required to create productive employment opportunities in non-farm sectors for those educated youth who will join the labour force after acquiring education in the near future.

- It is puzzling to note that majority of the female workers who withdrew from farm works and stayed back at home belong to the agricultural labour households, whose economic conditions are not very good. Clearly, female of agricultural labour households do not prefer to go for farm work. Some evidences indicate non-availability of non-farm employment opportunities rather than lack of willingness for outside work as the reason for de-feminisation of rural workforce. There is an evidence that female labour participation rate further declined after 2011-12. It is necessary to formulate attractive avenues for the female workers to bring them out of domestic boundaries and engage in productive activities.
- Withdrawal of workforce from agriculture witnessed between 2004-05 and 2011-12 has reduced dependence on agriculture and brought convergence in the contribution of agriculture in rural output and employment to some extent. However, to match employment share with output share of agriculture another 84 million agricultural workers are required to quit agriculture and join more productive non-farm sectors. This amounts to about 70 per cent increase in the non-farm jobs in rural areas.



□ Workers moving out of agriculture and those entering rural labour-force are getting largely absorbed in construction activity, as, employment growth in manufacturing and service sector in rural areas decelerated sharply after 2004-05. Rural manufacturing adopted more capital-intensive production as compared to the urban manufacturing and it failed to address the goal of employment generation for rural labour-force.

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