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Changing pattern of economic development and employment in India: An interstate analysis

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ABSTRACT

The present study reveals the changing pattern of economic development and quality of employment with a special focus on the last decade since economic reforms were introduced in Indian economy. The study identifies the dominant patterns of employment relation system in India and changing regional patterns of employment. The available evidence tends to indicate that growing economic development has been accompanied by low employment growth rate. This is evident not only at all-India but also across the states. This study examines the changes in employment elasticities across sectors during the past-reform period; the changes indicate that the employment elasticity is higher only in tertiary sectors and regular wage employment category. The declining employment elasticity in top priority sectors leads to more unemployment, which economists concerned to portray the recent experience as one of "jobless growth"

ABBREVIATIONS

GDP: Gross Domestic Product
NSSO: National Sample Survey Office
SGDP: State Gross Domestic Product (India)

Introduction

Expansion and creation of employment opportunities has been the unstated objectives of economic reforms being followed since the early 1990s in India. As industrial controls and trade restrictions were lifted, it was argued that this would result in higher growth of output leading to creation of new employment opportunities and a visible fall in poverty and inequality. But the emerging scenario in India in 1990s on the employment front has been rather dismal. The situation arising out of sharp deceleration, particularly in rural employment, has been well documented. *Sundaram (2001)* suggested that, based on Usual Principal and Subsidiary Status (UPSS), the workforce growth during the period 1993-94 to 1999-00 was at 0.81 % as against the projected growth of population of over 1.75 % per annum.

There is no doubt that in recent past the country has sustained a high & accelerated rate of growth, but this growth rate has failed to generate adequate employment opportunities. According to official figures the annual average growth rate of the economy in the last decade has been between 7-8 %, with the growth rate reaching almost 9% during the last four years of 10th plan, contrary to the annual rate of growth of employment has been very low, which makes some critics to label it jobless growth. This jobless growth in recent years has been accompanied by growth in casualization and in formalization. The number and share of regular workers have declined while those of flexi workers like contract, casual workers have increased.

Employment elasticity varies from sector to sector. Some sectors, by their very nature, are labour intensive. Also demand for labour depends on the relative prices of capital and labour. In a labour abundant economy, the price of labour is cheaper than that of capital, favouring labour intensive technologies wherever feasible. Thus any programme aimed at expanding employment opportunities must focus on three factors – growth, productivity of labour and relative price of labour and capital. The structural changes that occur in the process of growth have also a bearing on employment trends. India has come a long way in establishing and guaranteeing the rights of labour. It needs to modify its labour laws, as circumstances change without diluting the basic rights guaranteed to workers. It is recognized by all that improved productivity holds the key to raising real wages and this has been the concern of both management and labour. Confrontation should give way to cooperation without compromising the basic rights of labour or the larger national goals. Growth of employment emerged as an important concern in development planning around the middle of 1970s, when it was realised that economic and demographic performance of the economy had fallen short of earlier expectations and as a result unemployment had been on an increase. The problem was sought to be tackled through a two-pronged strategy; on the one hand, efforts were initiated to make development more employment oriented, by encouraging growth of employment intensive sectors and including employment among the objectives of macro-economic and sectorial policies, and, on the other, special employment programmes, for creating both short-term wage employment and self-employment were introduced. This approach was continued over the next one and a half decade.

Regional Variations in Economic Development

The growth in per capita state domestic product in India had been quite impressive over the years. At a more disaggregated level, attempt has been made to find the per capita state domestic product of twenty one major states for a longer period of time from 2004/05 to 2012/13. The primary focus of this analysis is to investigate whether disparities or gaps in per capita state domestic income across states have decreased over time or not. In the course of liberalizing markets, the interactions within states, between individual states and the external world is expected to rise resulting in greater convergence in terms of economic gains. The growth rate of per capita domestic product increased consistently in some states and some states revealed consistently decreasing rate over the period of 2004/05 to 2012/13. The regional disparity has widened during the period of 2004-05 to 2012-13. The coefficient of variation of SDP growth rates among states has jumped from 69.41 in 2004-05 to 92.80 in 2012-13. In terms of per capita SDP the coefficient of variation has become even worse in the 2008-09; the coefficient of variation increased from 54.59 in 2006-07 to 71.66 in 2008-09. In 2005-06 the coefficient of variation remained very high. During this period the per capita SDP growth rate of some states was negative such as, Bihar (-2.1 %), Jharkhand (-5.96 %) and most other states performed slow performance in per capita SDP growth rate except Maharashtra (12.74 %), Kerala (9.31 %), Gujarat (12.75 %) revealed high growth rate and also over the all-India average growth rate. In 2011-12 the coefficient of variation remained as low as 36.98 %. In this period most of the states showed improved performance in per capita SDP growth rate, only a single state Chhattisgarh which showed negative growth rate of -0.08 %. Again the coefficient of variation increased somehow from 36.98 in 2011-12 to 41.49 in 2012-13. It was found that the regional disparities have much widened during this period from 2004-05 to 2012-13. The regional disparities across the states have widened. It is only the periods of 2011-12 and 2013-14 the pace of variations has come down because the poor states revealed the increasing growth rate of per capita SDP and vice-versa. An analysis of the growth performance and structural changes in domestic product of Indian states in the last decade reveals that the development process has been uneven across states. The regional disparity in the growth rates becomes sharper in terms of per-capita income. Coefficient of variation show the disparities across the states have widened with the increase in per-capita income during the last decade. The SDP is contradictory; the states which show high rate of SDP in 2004-05 falls rapidly over the period of time and vice-versa. Disparities in the territory sector and secondary sector have been reduced, while in primary sector the regional disparities has widened rapidly.

Changing Pattern of Employment in India and Regional Variations

Analysing the changing pattern of employment and regional variations in

India with a focus on working population ratio, sectorial employment across main states and quality of employment. Coefficient of variation was used to see the regional variations across the states. In rural areas the coefficient of variation falls from 17.37 % to 15.52 %. In urban areas the coefficient of variation has shown marginal increase from 10.58 to 10.75 %, and in total rural urban working population ratio, the coefficient of variation has also shown marginal increase from 12.40 to 14.39 % that means the disparities across the states in working population ratio has come down. The share of employment of rural areas in primary sector has declined rapidly over all the states except, Uttar Pradesh which shows the marginal increases in the share of employment in rural areas increases from 60.4 % to 63.7 % during the period from 2000-01 to 2011-12. The declining share of employment of rural areas across the states in primary sector, disparities across the states also widened during the same period. The coefficient of variation increased from 15.63 % to 22.71 % during the period of 2000-01 to 2011-12. The share of employment in the secondary sector in rural areas during the period from 2000-01 to 2011-12 demonstrated a drastic change over all the sectors. Only one state (Gujarat) among the twenty-one states analysed revealed a declining share of employment fall from 17.2 % to 13.4 % during this period. In tertiary sector the share of employment is quite contrastive, most of the states analysed has shown negative share of tertiary employment in urban areas. Jharkhand, Maharashtra, Karnataka, Kerala, Punjab etc. has shown increasing share of employment in the tertiary sector during the period from 2000-01 to 2011-12. The total working population ratio both in rural and urban areas is increased in most of the states during the period from 2000-01 to 2011-12. The share of employment across the states of rural and urban areas in primary sector has declined rapidly. Secondary and tertiary sector of rural areas shows the drastic increasing change in the share of total employment whereas, in urban areas the share of employment in secondary sector increases slowly and in tertiary sector most of the states shows declining share of employment in urban areas across the states during the same period of time. In terms of quality of employment of rural areas self-employed and casual work earners are rapidly increasing, while the share of regular wage earners shows marginal increase. In urban areas self-employed and regular wage workers have shown drastic increasing change followed by casual work earners across the states. The shift of casualization to regular wage workers shows the improved level of development throughout this decade.

Relationship between Economic Development and Employment

The economic development in India followed socialist-inspired policies for most of its independent history, including state-ownership of many sectors; India's per capita income increased at only around 1% annualised rate in the three decades after its independence. Since the mid-1980s, India has slowly opened up its markets through economic liberalization. After more fundamental reforms since 1991 and their renewal in the 2000s, India has progressed towards a free market economy. In the late 2000s, India's growth reached 7.5%, which will double the average income in a decade. Analysts say that if India pushed more fundamental market reforms, it could sustain the rate and even reach the government's 2011 target of 10%. States have large responsibilities over their economies. The annualised 1999–2008 growth rates for Tamil Nadu (9.9%), Gujarat (9.6%), or Haryana (9.1%), were significantly higher than for Bihar (5.1%), Uttar Pradesh (4.4%), or Madhya Pradesh (6.5%). India is the tenth-largest economy in the world and the third largest by purchasing power parity adjusted exchange rates (PPP). On per capita basis, it ranks 140th in the world or 129th by PPP.

India's labour force is growing by 2.5% every year, but employment is growing only at 2.3% a year. Official unemployment exceeds 9%. Regulation and other obstacles have discouraged the emergence of formal businesses and jobs. Almost 30% of workers are casual workers who work only when they are able to get jobs and remain unpaid for the rest of the time. Only 10% of the workforce is in regular employment. India's labour regulations are heavy even by developing country standards and analysts have urged the government to abolish them.

The relationship between economic development and employment, with a view to see the employment elasticity over the per-capita income of India across the states in 2011-12. Simple regression analysis has been done in Table below, to see the interdependency and employment elasticity with respect to economic development indicator (per-capita income) across the states during the period of 2011-12. Table shows the performance of employment in relation to per-capita income is the outcome of a range of factors.

From the Table, per-capita income to be known as explanatory variable or independent variable and the other variables to be known as explained variables or dependent variable (sectorial employment and quality of employment).

The employment elasticity with respect to per-capita income is measured as the ratio between the growth of employment and growth of per-capita income; if the employment elasticity of per-capita income rises then it may on hand indicate more employment generation and the other hand, it may indicate a decline in employment generation. A rigorous analysis of employment elasticity should be therefore done on the basis of per-capita income relating to share and quality of employment. Table below shows the employment elasticity of per-capita income at all the major states.

Employment elasticity among major states

	Primary	***Secondary***	***Tertiary***	***Self Employed***	***Regular Wage***	***Casual work***
b	-0.0033	0.00014	0.00184	-0.00036	0.00037	-1.71
S.E	0.00015	0.000125	8.57	0.000134	4.66	0.000141
R^2	0.18	0.063	0.196	0.27	0.77	0.00077
t	-22	1.12	0.00022	-2.69	7.93	-121
r	-0.43	0.25	0.44	-0.53	0.88	-0.03

The table reveals that the employment elasticity in the primary sector is negative

(-0.0033) during the period of 2011-12. In almost all the states, there has been a sharp fall in employment elasticity in the period of 2011-12, as analysed in current study, the share of employment across the states has declined rapidly during the period from 2000-01 to 2011-12. The value of R2 (coefficient of determination) is 0.18, that means only 18 % variables explained this deterministic level. It is also found that the relationship between these two variables is insignificant at 5% level of significance. The correlation of coefficient has also been estimated which shows that there is negative relationship between these two variables (per-capita income and share of employment in the primary sector across states). The employment elasticity in the secondary sector was low during the period of 2011-12, as analysed; the share of employment in the secondary sector has been increasing marginally during the period from 2000-01 to 2011-12. The employment intensity in the secondary sector is almost declining negatively in most of the states. Coefficient of determination (R^2) shows that only 6.3 % of the observations are explained in this deterministic level. The relationship between variables in the secondary sector is to be found insignificant at 5% level of significance. The correlation of coefficient also shows less degree of relationship between these two variables. The employment growth in the tertiary sector has been quite moderate. The employment elasticity in the tertiary sector turns out to be higher than in secondary and primary sector during the period of 2011-12. The relationship between the variables in the tertiary sector is to be found significant at 5% level of significance and 20 % observation are explained in this deterministic level, which is highest overall in these sectors in this period. The employment intensity in the tertiary sector is quite higher than in other sectors. The correlation of coefficient also shows a moderate degree of relationship between these variables. In terms of quality of employment, the employment elasticity in self-employed and casual workers is negative during the period of 2011-12; the share of casual workers has declined rapidly during the period from 2000-01 to 2011-12. The coefficient of determination in self-employed is 0.27 and in casual workers the value is 0.00077 which is quite low than in employment elasticity of regular wage group. The relationship both in self-employed and casual workers is to be found insignificant at 5% level of significance. The correlation of coefficient in self-employed and casual workers is also found negative with the per-capita income.

The employment elasticity in the regular wage earners is quite moderate. The employment elasticity of regular wage with respect to per-capita income turns out to be higher than in self-employed and casual workers. The relationship between the variables is to be found significant at 5% level of significance. The value of coefficient of determination (R^2) is quite impressive (0.77), that means 77 % of observation are explained in this deterministic level, higher in all sectors and share of employment across states analysed here. The correlation of coefficient also shows the high degree of relationship between these variables (per-capita income and regular wage) see Table. From the above analysis it could be summarized that the employment elasticity is highest in tertiary sector, followed by secondary sector. The employment elasticity in primary sector has become negative during the period of 2011-12. In terms of quality of employment, the regular wage category shows higher employment elasticity as compared to self-employed and casual work categories. There are however considerable variations across states and by alternative measures of employment. In general, the employment performance has been worse even in states registering very high growth in the post-reform years, given the current state of employment behaviour; it appears that the jobless growth has become now a serious problem in the Indian economy.

Discussion and Conclusion

The present study was directed to examine the changing pattern of economic development and quality of employment with a special focus on the last decade since liberalization. It also analyses the changing regional pattern of employment in its quantitative and qualitative dimensions and examines the prospects of generating productivity employment of adequate quantity and quality accompanied with its economic development. For this analysis 21 states were included and data were used from the planning commission and latest rounds of NSSO during the period from 2000-01 to 2011-12. The main objectives were to investigate the changing pattern of employment, regional variations, relationship and employment elasticity across the 21 states in India. Our results indicate that while there has been acceleration in the output, there has been a sharp deceleration in the employment growth rate during the same years. This is evident not only at all-India but also across the states. The share of gross state domestic product has declined in the primary and secondary sector, while the tertiary sector occupies a major contribution in GSDP. With the fall in GSDP of primary and secondary sector the inter-state disparities have also widened during the period from 2004-05 to 2011-12. The per-capita income of all-India and across the states has increased during the period from 2000-01 to 2011-12. The regional disparity in the growth rates becomes sharper in terms of per-capita income. The SDP is contradictory; the states which show high rate of SDP in 2004-05 falls rapidly over the period of time and vice-versa. Disparities in the territory sector and secondary sector have been reduced, while in primary sector the regional disparities has widened rapidly.

The total working population ratio both in rural and urban areas is increased in most of the states during the period from 2000-01 to 2011-12. The share of employment across the states of rural and urban areas in primary sector has declined rapidly. Secondary and tertiary sector of rural areas shows the drastic increasing change in the share of total employment whereas, in urban areas the share of employment in secondary sector increases slowly and in tertiary sector most of the states shows declining share of employment in urban areas across the states during the same period of time. In terms of quality of employment of rural areas self-employed and casual work earners are rapidly increasing, while the share of regular wage earners shows marginal increase. In urban areas self-employed and regular wage workers shows drastic increasing change followed by casual work earners across the states. The shift of casualization to regular wage workers indicates the improved level of development throughout this decade. The disparities across the states had rapidly fallen during the period from 2000-01 to 2011-12 indicates the improved level of development. The employment elasticity is higher in tertiary sector, followed by secondary sector. The employment elasticity in primary sector has become negative during the period of 2011-12. In terms of quality of employment, the regular wage category shows higher employment elasticity as compared to self-employed and casual work categories. There are however considerable variations across states and by alternative measures of employment. In general, the employment performance has been worse even in states registering very high growth in the post-reform years, given the current state of employment behaviour; it appears that the jobless growth has become now a serious problem in the Indian economy. Employment growth is a function of growth of GDP and employment elasticity. It was analysed that the employment elasticity is higher only in tertiary sector and regular wage employment category. The primary sector and self-employed and casual work employment categories shows negative elasticity's. Self-employed and casual work categories are increasing in rural areas, whereas in urban areas regular wage category has increased. The employment elasticity among the employment category is only higher in urban areas lagging the rural areas further behind. Secondary sector also shows the low employment elasticity and is not enough to generate employment growth. The declining employment elasticity in the primary sector and declining employment elasticity in employment categories leads to more unemployment, which economists and others concerned to portray the recent experience as one of "Jobless growth". and a faster growth of these sectors will lead to an increase in overall employment growth. Labour is abundant in the Indian economy, and theoretically, it should be possible for India to adopt the path of economic development. Labour intensive manufacturing industries must be adopted in urban and especially in rural areas which will enable them to absorb surplus labour from agriculture, raise wages throughout the economy, and increase overall productivity, as propounded by Lewis in his theory of Economic Development and Unlimited Supply of Labour in underdeveloped countries. More efforts are needed to improve the Human Capital and developing infrastructure for rapid growth and to minimize unemployment through labour intensive policies. A major portion of Government Investment should be invested in suitable rural areas, while the urban sector is already wholly & solely dominated by both private and public investors, with the help of which the output and employment will increase through the multiplier effect in those areas, and also the labour migration from rural to urban will stop which enhances the employment opportunities for urban unemployed masses.

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