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RURAL NON-FARM SECTOR IN INDIA AND THE ISSUES RELATED TO EMPLOYMENT AND POVERTY

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ABSTRACT

Indian agricultural has witnessed structural transformation. The share of agriculture in GDP has constantly fallen since independence. On the other hand the share of non-farm sector has increased both in the employment and in GDP. But agricultural sector still, is the major employment providing sector. With declining share of agriculture in GDP and a somewhat higher share in employment has over the years increased problems for the rural sector. The expansion of non-farm sector certainly shows that its importance has increased as far as employment is concerned. But the rate of shift of population from farm to non - farm sector is quite slow. Poverty is a major concern for the entire country and for the planners from the very beginning. Government has always prioritised poverty alleviation with MGNREGS being the latest step in this direction. In rural areas poverty cannot be solved neither alone by agriculture or by non-farm sector. No doubt non farm sector has large employment capacity but in India, agriculture dominates employment opportunities, hence making efforts to raise the productivity in this sector together with expanding non-farm sector can help in solving the problem of poverty in rural areas. The present paper throws a light on the role of agriculture as well as non-farm sector in Indian economy. It also analyses the situation of unemployment and poverty in rural area.

KEYWORDS

Agricultural production and productivity, Employment, Poverty, Rural Non-farm sector.

INTRODUCTION

ndia remains primarily an agricultural nation even after six decades of independence. Although the share of agriculture in GDP has fallen from 55.1% in 1950-51 to 17.1% in 2007-08 but it is still employing more than half of the total population. It clearly reflects the high pressure of population on land and the inability of agriculture in productively absorbing the growing rural labour force. Rural non-farm sector can become an alternative for rural development. Traditionally it was thought that people in rural areas are exclusively employed in agriculture. But number of evidences shows that rural income consists of various sources. A part of their income comes from agriculture and allied activities (animal husbandry, fisheries, forestry etc.) and a part comes from employment in mining, manufacturing, commerce, services etc. These nonfarm incomes can contribute significantly to total incomes of rural households in developing countries like India. Alleviation of Poverty has remained one of the major objectives of India's five year planning with Government of India explicitly considering it in the fifth five plan. The incidence of poverty is high for the whole country but it is higher for the rural areas. Given the rising productivity per worker in the non-farm sector, the problem of poverty can be handled in a better manner by expanding this particular sector especially in the rural areas.

REVIEW OF THE LITERATURE

The importance of non-farm sector was realised in the early 1970s. John Mellor in the early 1970s emphasized the close relationship between the agricultural and non-agricultural sectors in rural areas (Mellor and Lele, 1972 and Mellor 1976).

The N.S.S. estimates also show a constant increase in the share of non agricultural employment in rural areas. The share of male workers has increased both in secondary and tertiary sectors between 1972-73 and 1987-88 but the participation has increased more sharply in tertiary sector than in secondary sector.

Vaidyanathan (1983) estimated a regression of the importance of non-agricultural employment in total employment on farming income, its distribution, the importance of crash crops and the unemployment rate, using several state-level data sets for India. In all cases he found a strongly significant, positive relationship between unemployment and the importance of non-farm employment. Where agriculture was unable to provide widespread and gainful employment, the non-farm sector played an important role in picking up part of the gap.

Considering the role of farm activities and employment, Papola (1984); found that a relatively rapid growth of agriculture is unlikely to employ the entire rural labour force at reasonable levels of productivity and income.

At the broader country-wide level, Ravallion and Datt (1996, 1999) show that the effectiveness of nonfarm growth in reducing poverty has varied widely across states, reflecting systematic differences in initial conditions. In states with low farm productivity, low rural living standards relative to urban area, and poor basic education, poor people have been less able to participate in the growth of the nonfarm sector.

Expansion of the non-farm economy appears to have influenced agricultural wages in ruralIndia. Average daily wage rates in non-agriculture are found to be highest in states with high agricultural daily wages, as expected, a relationship which is confirmed in the more disaggregated district level study of Hazell and Haggblade (1990). Overall, wage rates in the rural non-farm sector were found to be higher than the agricultural wage, indicating that nonfarm activities are not mainly low productivity; residual activities in rural India (although one might expect such occupations to be under-enumerated in survey data due to their seasonal and self-employed character).

Also the importance of farm sector in overall development of rural areas has fallen over the years. A study done by Chadha (1993); shows that the contribution of agricultural sector in providing income for the rural household has been decreasing. At the national level the income generated from primary sector consisting of agriculture is steadily declining and that generated by secondary and tertiary sector in consistently increasing.

Another important link between the nonfarm sector and rural poverty occurs via the effect of the nonfarm sector on agricultural wage rates. Agricultural labourers are highly represented among the poor in rural India, and as a result increases in agricultural wage labour earnings are strongly associated with lower poverty (Datt and Ravallion, 1998).

In a study done by Papola and Sahu (2012); it was observed that the share of nonfarm sector in rural employment increased from 15 per cent in 1972-73 to 27 per cent in 2004-05. It further increased to 32 per cent in 2009-10.

The importance of non-farm sector in Indian economy has grown over the years and particularly after 1970s. There is no shortage of literature regarding importance and contribution of non-farm sector. It is clearly reflected that this sector has positive relationship with employment opportunities in rural areas. Although its linkages with poverty are not clearly specified but one can conclude that in long run the expansion of non –farm sector will help in reducing its incidence.

IMPORTANCE OF THE STUDY

The role of rural non-farm sector in the development of rural areas has been a matter of discussion from the very beginning. The inability of agriculture in gainfully employing the growing population has been well recognized from the above mentioned facts. This study focuses on the declining share of agriculture in Indian economy and tries to analyse how rural non-farm sector can absorb this growing population. Basically it tries to capture the structural transformation of Indian agriculture. Further this study also explains the incidence of poverty in rural areas and tries to answer how this problem can be solved.

OBJECTIVES OF THE STUDY

- To study the falling share of agriculture in Indian economy and growth of rural population.
- To study the expansion of rural non farm sector with the help of census reports.
- To analyse the situation of employment in rural and urban areas and the share of various sectors in providing employment opportunities.
- To study the problem of poverty in rural areas and to examine the ways by which it can be solved.

METHODOLOGY

The above analysis is based on secondary sources of data. Government of India publications have been used. For all India figures on employment, various N.S.S.O. reports are taken. For figures related to poverty, data released by planning commission (Tendulkar committee) have been used. For data on non farm sector, census report and for other figures economic survey have been used. Certain data has been taken from individual studies.

DISCUSSIONS AND FINDINGS

Discussions basically relates to the performance of agricultural sector in India since planning. Firstly, production and productivity of agriculture has been analysed. Thereafter the growth and expansion of non - farm sector is shown. It can be said that the emergence of non-farm sector can help in providing employment to a vast section of marginal and landless labours as shown by the employment data. Lastly the incidence of poverty particularly in the rural areas is analysed.

AGRICULTURE AND RURAL INDIA

Indian agriculture has witnessed wide variations in growth performance in the last six decades. The variability is particularly due to the subsistence nature of farming in India and the dependence of agriculture on monsoons. The self reliance objective of planning was largely met with the advent of green revolution. The impact of green revolution was gradually reduced as we moved towards the later years of the last century. Economic reforms initiated in early nineties had a significant impact on agricultural sector, primarily due to the opening up of economy to external competition, liberalization of trade and deregulation of input and other sub-sectors. Agricultural growth decelerated during 1990s. We can analyse agricultural growth in following stages

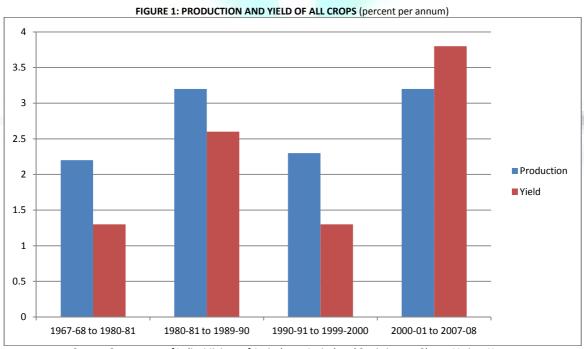
- Phase I: Pre-green revolution Period (1950-51 to 1967-68)
- Phase II: Early green revolution period (1968-69 to 1980-81)
- Phase III: Period of wider dissemination, maturing of green revolution (1980-81 to 1989-90)
- Phase IV: Post-Reform Period (1990-91 to 2007-08). This period can be divided into two sub periods
 - a) From 1990-91 to 1999-2000
 - b) From 2000-01 to 2007-08

In the pre-green revolution period (1950-51 to 1967-68) the annual rate of growth in yield was 1.4%, with rice recording the most impressive growth rate in yield (2.1%) followed by wheat (1.3%). The green revolution started from the year 1966 and the effects of adoption of superior technology and institutional reforms were found to manifest from 1968-69 onwards. The subsequent period is classified as early green revolution period. Yield of all crops for the second period is 1.3%. The decade of 80s recorded highest yield growth so far of about 2.6%. During this period green revolution started spreading to more area and more crops. After registering an impressive performance during 1980s, agricultural growth rate decelerated during 1990s. Rate of growth of production of food grains fell from 2.9% per annum in 1980s to 2.0% in 1990s. This slump is widely perceived as an outcome of substantial diversion of resources away from agriculture to other sectors of the economy. Eleventh five year plan document stated that this deceleration has occurred in almost all states and covered all major crops. However, a significant recovery of growth was observed in the last few years that have pushed the decadal growth rates above 3 per cent. Thus, the growth series clearly establish the sharp deceleration of the agricultural sector in the post-reforms period and then a turnaround in the last years. The data related to agricultural production and productivity is shown in the following table and then it is graphically presented.

TABLE 1: ALL-INDIA COMPOUND GROWTH RATES OF PRODUCTION AND PRODUCTIVITY (Base T.E. 1981-82 = 100, percent per annum)

Crop	1967-68 to 1980-81		1980-81 to 1989-90		1990-91 to 1999-00		2000-01 to 2007-08	
	Production	Yield	Production	Yield	Production	Yield	Production	Yield
Total food grains	2.2	1.3	2.9	2.7	2.0	1.5	2.1	2.8
Non-food grains	2.3	1.2	3.8	2.3	2.7	1.1	5.1	3.9
All crops	2.2	1.3	3.2	2.6	2.3	1.3	3.2	3.8

Source: Government of India, Ministry of Agriculture, Agricultural Statistics at a Glance, Various Years.



Source: Government of India, Ministry of Agriculture, Agricultural Statistics at a Glance, Various Years

AGRICULTURAL POPULATION

Data presented in the table below clearly reflects that population of the country has increased rapidly from 1951 to 1981. The average annual exponential growth rate was 1.25% in 1951 and 2.22% in 1981. Growth rate marginally declined to 2.16% in 1991. Thereafter a somewhat declining growth rate has been observed. Rural population has always been a major part of total population. The share of rural population to total population was 82.7% in 1951. Even after two decades in 1971 80.1% was the share of rural population. Presently 68.8% of the total population resides in rural area. The share of cultivators in agricultural workers has declined and that of agricultural labourers has increased over the years.

TABLE 2: POPULATION AND AGRICULTURAL WORKERS (in millions)

Year	Total Population	Average annual exponential growth rate (%)	Rural Population		Agricultural Workers		
				Cultivators	Agricultural Labourers	Total	
1	2	3	4	5	6	7	
1951	361.1	1.25	298.6 (82.7)	69.9(71.9)	27.3(28.1)	97.2	
1961	439.2	1.96	360.3 (82.0)	99.6(76.0)	31.5(24.0)	131.1	
1971	548.2	2.20	439.0 (80.1)	78.2(62.2)	47.5(37.8)	125.7	
1981	683.3	2.22	525.6 (76.9)	92.5(62.5)	55.5(37.5)	148.0	
1991	846.4	2.16	630.6 (74.5)	110.7(59.7)	74.6(40.3)	185.3	
2001	1028.7	1.97	742.6 (72.2)	127.3(54.4)	106.8(45.6)	234.1	
2011*	1210.6	1.64	833.5 (68.8)	118.7(45.1)	144.3(54.9)	263.0	

^{*}Provisional

Figures within parentheses in column 4 are percentages to the total population.

Figures within parentheses in columns 5 and 6 are percentages to column 7.

Source: Agricultural Statistics at a glance 2013.

THE RURAL NON-FARM SECTOR

Nonfarm activities can be defined as to exclude primary agricultural activities including forestry, fisheries, animal husbandry. But it includes trade and processing of these activities together with activities related to secondary and tertiary sector. In the nonfarm sector activities consists of wide range of traditional and modern manufacturing, mining and quarrying, construction, trading, transport, storage and communication, hoteling and those rendering community and personal services. So, rural non-farm sector includes all economic activities other than production of primary agricultural commodities.

GROWTH AND EXPANSION OF RURAL NON-FARM SECTOR

A non-agricultural establishment for the purpose of Fifth Economic Census has been defined as an establishment which was engaged in Mining and Quarrying; Manufacturing; Electricity, gas and water supply. Construction; Sale, Maintenance & Repair of motor vehicles, motorcycles; Wholesale trade; Retail Trade; Restaurants and Hotels; Transport and storage; Post and Telecommunications; Financial intermediation; Real estate, Renting & Business Services; Public administration and defence, compulsory social security; Education; Health and social work; Other community, social and personal service activities etc. In short establishments other than the Agricultural establishments are Non-Agricultural establishments.

TABLE 3: COMPARISON OF NON-FARM ESTABLISHMENTS

Sector	Establishm	ents (absolute	Gr	owth rate (%)	
	EC 1990	C 1990 EC 1998		EC 1990	EC 1998	EC 2005
Rural	14722200	17707475	2536066	-	2.25	5.37
Urban	10280000	12641413	16290923	-	2.51	3.69
Total	25002200	30348888	41826989	-	2.36	4.69

Source: Economic Census, various years, GOI.

GROWTH RATES MEAN COMPOUND ANNUAL GROWTH RATES (CAGRS)

1990

Above table shows the number of establishments in last three economic censuses and inter census growth rate of establishments in respect of rural, urban and combined over the periods 1990-98 and 1998-2005. It would be seen that the overall annual growth rate of establishments per year during 1998 – 2005 was of the order of 4.69%. Growth rate (5.37%) per annum in rural area was significantly more than the growth rate (3.69%) observed in urban area. When compared with the growth rate observed during 1990-98 it is found that the growth rates both in Rural and urban areas during 1990-98 were comparatively low compared to the growth rates observed during 1998-2005. The overall growth rate which was of the order of 2.36% during 1990-98 has gone up to 4.69% during 1998-2005.

Rural Non farm Establishments

30000000

25000000

15000000

10000000

5000000

FIGURE 2: COMPARISON OF NON-FARM ESTABLISHMENTS

Source: Economic Census, 2004-05, GOI

2005

1998

NON-AGRICULTURAL ESTABLISHMENTS BY MAJOR ACTIVITY GROUPS

Percentage share of Non-agricultural Establishments by Major Activity Groups are presented in the following table. Share of wholesale and retail trade, transport, storage and communication, financial insurance and real estate, etc. activities has increased consistently during the period 1990-2005. Share of whole sale and retail trade in rural areas has increased from 34.65% (1990) to 42.34% in 2005. The share of transport and storage was 2.20% in 1990 increased to 4.30% in 2001. The share of financial, insurance, real estate and business activities which was 1.18% in 1990 increased to 2.69% in 2005. The percentage share has consistently declined in community social and personal services, share of other sectors remained more or less at the same level during this period.

TABLE 4: PERCENTAGE SHARE OF ALL NON-AGRICULTURAL ESTABLISHMENTS BY MAJOR ACTIVITY GROUPS

Sl. No.	Major activity group	Rural			Urban			
		1990*	1998	2005	1990*	1998	2005	
1	Mining and Quarrying	0.34	0.20	0.31	0.08	0.05	0.15	
2	Manufacturing	27.17	24.24	26.02	19.13	16.33	19.87	
3	Electricity, gas and water supply	0.23	0.18	0.21	0.17	0.10	0.14	
4	Construction	1.01	1.15	0.86	1.06	0.96	0.94	
5	Wholesale and retail trade	34.65	38.03	42.34	44.56	47.69	51.05	
6	Hotels and restaurants	4.69	4.24	4.01	4.84	4.64	4.37	
7	Transport, storage	2.20	3.35	4.30	4.19	3.97	4.14	
8	Communication	0.68	0.63	1.55	0.21	1.27	2.45	
9	Financial Ins., real estate & Business activities	1.18	1.59	2.69	3.11	3.71	4.86	
10	Community, Social and Personal Services	27.83	26.36	17.70	22.57	21.25	12.01	
11	Others(unspecified)	0.01	0.03	0.01	0.08	0.01	0.00	
12	All Non agricultural activities	100.0	100.0	100.0	100.0	100.0	100.0	

^{*} Excluding J & K

Source: Economic Census, 2004-05, GOI

EMPLOYMENT IN RURAL AND URBAN AREAS

TABLE 5: GROWTH OF RURAL EMPLOYMENT (UPSS)

Sector	1972-73/77-78	1977-78/83	1983/1987-88	1987-88/1993-94	1993-94/1999-00	1999-00/2004-05	2004-05/2009-10
Primary	1.66	1.49	0.28	2.17	0.20	1.29	-1.65
Secondary	4.71	4.08	7.57	-0.53	2.55	6.03	4.65
Tertiary	5.72	3.58	2.13	4.64	2.12	4.52	0.90
All non agricultural	5.23	3.82	4.91	1.98	2.32	5.25	2.83
Total	2.21	1.89	1.19	2.12	0.67	2.29	-0.34

Source: T.S. Papola and Partha Pratim Sahu (2012).

It is quite evident from the above table that growth of employment in non-agricultural sector has been faster than that of agricultural sector. One can conclude from this that this will cause the overall rate of employment growth to be higher in rural areas but because of slow growth rate of employment in agriculture, the overall employment growth is lower in rural areas. Further employment performance of the rural areas has been better than that of the urban areas in as far as the non-agricultural activities are concerned. Employment in all non-agricultural activities together grew at 5.23 per cent per annum in rural areas and 4.47 per cent per annum in urban areas during 1972-73/1977-78. During 2005-10, rural areas did better than the urban areas in growth of non-agricultural employment. In general, the pattern of employment growth in terms of rates of employment growth in different activities is found to be more or less similar in rural and urban areas. Growth of urban employment is shown in the table below.

TABLE 6: GROWTH OF URBAN EMPLOYMENT (UPSS)

Sector	1972-73/77-78	1977-78/83	1983/1987-88	1987-88/1993-94	1993-94/1999-00	1999-00/2004-05	2004-05/2009-10
Primary	5.01	3.27	0.42	1.99	-0.348	4.47	-1.17
Secondary	4.86	3.80	5.13	1.04	2.32	5.60	2.01
Tertiary	4.23	3.38	2.10	5.32	3.37	3.78	2.06
All non agricultural	4.47	3.54	3.33	3.61	2.99	4.44	2.04
Total	4.55	3.50	2.91	3.40	2.30	4.44	1.78

Source: T.S. Papola and Partha Pratim Sahu (2012).

POVERTY

Broadly one can define poverty as a social phenomenon where a section of society is unable to fulfil even the basic requirements of life. In India we are more concerned with minimum standard of living rather than reasonable standard of living. The concept of poverty has broadened over time. The extent of deprivation now takes into account status of education and health along with standard of living mostly associated with income of a household reflected in the multidimensional poverty index. The incidence of poverty is quite high in India. The estimate of Tendulkar committee using Mixed Reference Period (MRP) method for 2011-12 is 21.9%.

TABLE 7: PERCENTAGE AND NUMBER OF POOR ESTIMATED BY TENDULKAR METHOD, USING MIXED REFERENCE PERIOD (MRP)

	Pov	erty Ratio	(%)	Number of poor (in million)			
	Rural	Urban	Total	Rural	Urban	Total	
1993-94	50.1	31.8	45.3	328.6	74.5	403.7	
2004-05	41.8	25.7	37.2	326.3	80.8	407.1	
2011-12	25.7	13.7	21.9	216.5	52.8	269.3	
Annual Average Decline: 1993-94 to 2004-05 (percentage points per annum)	0.75	0.55	0.74				
Annual Average Decline: 2004-05 to 2011-12 (percentage points per annum)	2.32	1.69	2.18				

Source: Planning Commission Government of India, July 2013

From the above table it can be observed that the percentage of persons below the Poverty Line in 2011-12 has been estimated as 25.7% in rural areas, 13.7% in urban areas and 21.9% for the country as a whole. The respective ratios for the rural and urban areas were 41.8% and 25.7% and 37.2% for the country as a whole in 2004-05 and the figures were 50.1% in rural areas, 31.8% in urban areas and 45.3% for the country as a whole in 1993-94. In 2011-12, India had 217 million persons below the Tendulkar Poverty Line in rural areas as compared to 329 million in 1993-94, that is a reduction of 112 million persons. During the eleven year period 1993-94 to 2004-05, the average decline in the poverty ratio was 0.74 percentage points per year. It accelerated to 2.18 percentage points per year during the seven year period 2004-05 to 2011-12. Therefore, it can be concluded that the rate of decline in the poverty ratio during the most recent 7-year period 2004-05 to 2011-12 was about three times of that experienced in the previous eleven year period 1993-94 to 2004-05. Similar trend is observed in the decline of rural poverty which declined from 0.75% during 1993-94 to 2004-05 to 2011-12. The decline in poverty flows from the increase in real per capita consumption. It is clear that the real MPCE increased by much more in the second period (2004-05 to 2011-12) as compared to the

first (1993-94 to 2004-05), that the increase was fairly well distributed across all deciles of the population, and the distribution was particularly equitable in rural areas.

RECOMMENDATIONS

Non – farm sector has immense possibilities. Although it has created employment opportunities but employment in hired establishments is more than that in own account establishments. In the event where agricultural sector contribution in employment is decreasing, non- farm sector can prove helpful. Moreover the problem of poverty can be solved if the productivity of agricultural and non – agricultural sector both is increased. Looking at the constraints in increasing the productivity in agricultural sector and the expansion of non – agricultural sector in recent years one can rely more on latter for rural development in general and poverty and unemployment in particular.

CONCLUSION

It is universally accepted that agriculture alone is incapable in solving the problems of a developing country which is in its second stage of demographic transition (i.e. population explosion). In India initially all the stress was on economic growth primarily through industrialisation. Emphasis on agriculture was given since the third five year plan (green revolution). In rural areas agriculture provided highest employment opportunities. Soon then it was realised that agriculture alone is not in a position to absorb the growing population. The non-farm sector began to receive more importance given its higher productivity. All this resulted in the structural transformation in agricultural sector. Thus initiating for developing a comprehensive g approach towards the expansion of potential non-farm activities in rural areas could be an effective measure for solving the major problems of unemployment, poverty and out-migration of rural labour force to a certain extent.

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