



# **The Economic Transition and Employment Generation in Indian Economy: Role of Market, Policy and Institutions**

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**Pulak Mishra & Bhagirath Behera**

**Department of Humanities and Social Sciences  
Indian Institute of Technology, Kharagpur**

# Outline of Presentation

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1. **Motivation**
2. **Research Questions**
3. **Economic Transition in India: Theoretical Understanding**
4. **Economic Growth and Employment Generation**
5. **Economic Transition in India: Critical Issues**
6. **Conclusion and Policy Implications**

## **Motivation**

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- **Hyper economic growth but declining employment opportunities**
- **Emphasis on industrialisation as agriculture is overcrowded**
- **Acquisition of farmland for the purpose of industrialisation**
- **Strong resistance by the farmers**

## **Objectives of the Study**

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- **Critically examine the recent process of economic transition from agriculture to modern sector**
- **Understand the implications of economic transition in the context of employment and unemployment**

# Research Questions

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- **Why are the farmers so reluctant to give up their farmland if agriculture is no longer a profitable venture and suffers from the problem of disguised unemployment?**
- **Do they still believe that the growth of agriculture sector can be accelerated? Or**
- **Are they unsure on whether industrialisation will bring in gainful employment opportunities for them?**

# **Economic Transition in India: Theoretical Understanding**

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- **Lewis two sector development model**
- **Economic transition from agricultural sector to modern sector**
- **Low/zero marginal productivity of labour in agriculture**
- **Higher wage rate in modern sector and shift of workforce from agriculture to modern sector**
- **Improvement in marginal productivity of labour in agriculture**

# **Economic Transition in India: Theoretical Understanding (Cont.)**

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- **Assumption of spontaneous labour movement**
- **Disguised unemployment in agriculture-a common perception**
- **Emphasis on aggressive industrialisation**
- **Low marginal productivity of labour in agriculture-disguised unemployment not the only cause**
- **Deceleration in agriculture-caused by a combination of economy, ecology/ environment, technology, policy and institution related factor**
- **Accommodating surplus workforce in manufacturing-constraint by knowledge, skills and attitude**

# Economic Growth and Employment Generation

<b>Sector</b>	<b>Average Annual Growth Rate (%)</b>			
	<b>1980-1991</b>	<b>1992-2000</b>	<b>2000-2007</b>	<b>1992-2007</b>
<b>Agriculture &amp; Allied</b>	<b>3.5</b>	<b>3.4</b>	<b>2.5</b>	<b>2.9</b>
<b>Agriculture</b>	<b>3.7</b>	<b>3.4</b>	<b>2.5</b>	<b>3.0</b>
<b>Industry</b>	<b>6.7</b>	<b>6.9</b>	<b>6.9</b>	<b>6.9</b>
<b>Mining and Quarrying</b>	<b>8.5</b>	<b>4.7</b>	<b>4.6</b>	<b>4.7</b>
<b>Manufacturing</b>	<b>6.2</b>	<b>7.3</b>	<b>7.7</b>	<b>7.5</b>
<b>Electricity, Gas and Water Supply</b>	<b>8.6</b>	<b>7.1</b>	<b>4.8</b>	<b>5.9</b>
<b>Services</b>	<b>6.3</b>	<b>7.9</b>	<b>8.6</b>	<b>8.2</b>
<b>Construction</b>	<b>4.7</b>	<b>5.6</b>	<b>9.9</b>	<b>7.7</b>
<b>Trade, Hotels &amp; Transport</b>	<b>5.9</b>	<b>8.8</b>	<b>10.3</b>	<b>9.5</b>
<b>Finance, Insurance, Real Estate</b>	<b>9.1</b>	<b>8.3</b>	<b>7.9</b>	<b>8.1</b>
<b>Community, Social, Personal Services</b>	<b>5.9</b>	<b>7.4</b>	<b>6.0</b>	<b>6.7</b>
<b>Total</b>	<b>5.4</b>	<b>6.4</b>	<b>6.9</b>	<b>6.6</b>



# Economic Growth and Employment Generation

**Table 2: Share of GDP at Factor Cost across Major Sectors, 1980-2007**

Sector	Average Share (%)		
	1980-1991	1992-2000	2000-2007
<b>Agriculture &amp; Allied</b>	34.7	27.8	21.4
<b>Agriculture</b>	31.7	25.5	19.9
<b>Industry</b>	18.8	20.2	19.6
<b>Mining and Quarrying</b>	2.3	2.5	2.2
<b>Manufacturing</b>	14.5	15.3	15.1
<b>Electricity, Gas and Water Supply</b>	1.9	2.5	2.3
<b>Services</b>	46.5	52.0	59.0
<b>Construction</b>	6.0	5.7	6.3
<b>Trade, Hotels &amp; Transport</b>	18.1	20.2	24.8
<b>Finance, Insurance, Real Estate</b>	9.1	12.2	13.5
<b>Community, Social and Personal Services</b>	13.4	13.9	14.5
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

# Economic Growth and Employment Generation

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	<b>Rate of Growth (%)</b>		
	<b>1983 to 1993-94</b>	<b>1993-94 to 1999-00</b>	<b>1999-00 to 2004-05</b>
<b>Population</b>	<b>2.11</b>	<b>1.98</b>	<b>1.69</b>
<b>Labour Force</b>	<b>2.28</b>	<b>1.47</b>	<b>2.84</b>
<b>Workforce</b>	<b>2.61</b>	<b>1.25</b>	<b>2.62</b>

# Economic Growth and Employment Generation

<b>Table 4 Rate of Growth of Employment and Self-Employment (%), 1983-2005</b>							
<b>Category</b>		<b>Employment</b>		<b>Self-Employment</b>			
				<b>Agriculture</b>		<b>Non-Agriculture</b>	
		<b>1983-94</b>	<b>1993-2005</b>	<b>1983-94</b>	<b>1993-2005</b>	<b>1983-94</b>	<b>1993-2005</b>
<b>Rural</b>	<b>Male</b>	<b>1.91</b>	<b>1.41</b>	<b>0.99</b>	<b>0.82</b>	<b>3.31</b>	<b>3.67</b>
	<b>Female</b>	<b>1.39</b>	<b>1.55</b>	<b>0.29</b>	<b>2.12</b>	<b>5.79</b>	<b>3.43</b>
	<b>Total</b>	<b>1.73</b>	<b>1.46</b>	<b>0.72</b>	<b>1.34</b>	<b>3.91</b>	<b>3.61</b>
<b>Urban</b>	<b>Male</b>	<b>3.03</b>	<b>3.10</b>	<b>2.08</b>	<b>0.99</b>	<b>3.23</b>	<b>4.15</b>
	<b>Female</b>	<b>3.33</b>	<b>3.07</b>	<b>6.88</b>	<b>1.03</b>	<b>1.81</b>	<b>4.71</b>
	<b>Total</b>	<b>3.09</b>	<b>3.10</b>	<b>3.76</b>	<b>1.01</b>	<b>2.95</b>	<b>4.25</b>
<b>Total</b>	<b>Male</b>	<b>2.19</b>	<b>1.87</b>	<b>1.03</b>	<b>0.83</b>	<b>3.27</b>	<b>3.91</b>
	<b>Female</b>	<b>1.65</b>	<b>1.78</b>	<b>0.50</b>	<b>2.07</b>	<b>4.06</b>	<b>3.94</b>
	<b>Total</b>	<b>2.01</b>	<b>1.84</b>	<b>0.82</b>	<b>1.32</b>	<b>3.44</b>	<b>3.92</b>

# Economic Growth and Employment Generation

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**Table 5: Number and Rate of Unemployment in India, 1993-2005**

<b>Year</b>	<b>No. of unemployed</b>	<b>Rate of Unemployment</b>
<b>1983</b>	<b>24.34</b>	<b>9.22</b>
<b>1993-94</b>	<b>20.27</b>	<b>6.06</b>
<b>1999-00</b>	<b>26.68</b>	<b>7.31</b>
<b>2004-05</b>	<b>34.74</b>	<b>8.28</b>

# Economic Growth and Employment Generation

**Table 6: Share of Sectors in Employment, 1983-2005**

Sector	Share in Employment (%)			
	1983	1993-94	1999-2000	2004-05
Agriculture	65.42	61.03	56.64	52.06
Mining & Quarrying	0.66	0.78	0.67	0.63
Manufacturing	11.27	11.10	12.13	12.90
Electricity & Water Supply	0.34	0.41	0.34	0.35
Construction	2.56	3.63	4.44	5.57
Trade, Hotel and Restaurant	6.98	8.26	11.20	12.62
Transport, Storage and Communication	2.88	3.22	4.06	4.61
Finance, Insurance, Real Estate and Business Services	0.78	1.08	1.36	2.00
Community, Social and Personal Services	9.10	10.50	9.16	9.24
	100.00	100.00	100.0	100.00

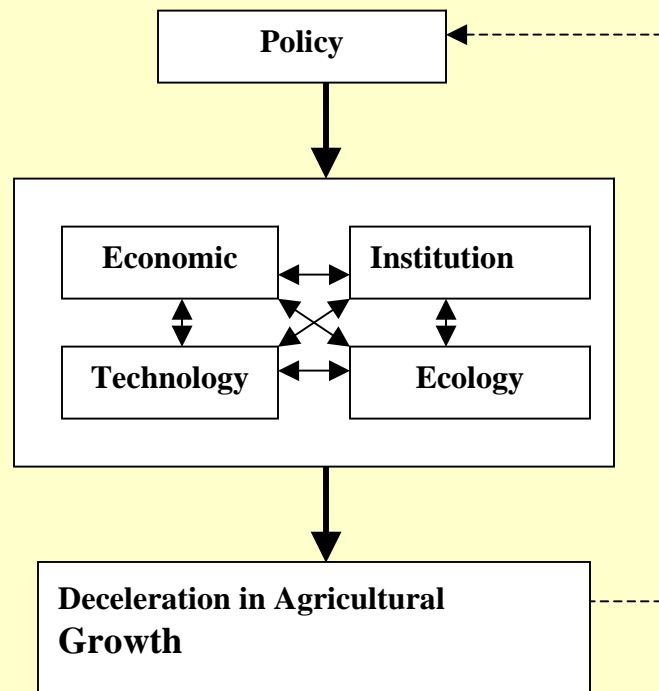
# Economic Transition: Emerging Issues

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- Emerging issues:
  - (1) Factors causing deceleration in agriculture
  - (2) Constraints to acquisition of farmland for industrialisation

# Economic Transition: Emerging Issues

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Note: ---- Line for policy corrections

# **Economic Transition: Emerging Issues**

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- **Resistance from the farmers against acquisition of farmland.**
- **The incidences in Singur and Nandigram of West Bengal or in Jagatsingpur of Orissa.**
- **Reasons:**
  - (1) Agency Problems**
  - (2) High Transaction Costs**
  - (3) Insecure Property Rights**



# Conclusion

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- ❖ **Economic transition from agrarian economy to modern sector - an obvious phenomenon in the development process.**
- ❖ **Debate on how to realise and sustain transition without loosing economic welfare.**
- ❖ **High growth rate of manufacturing does not necessarily result in enlargement of employment opportunities.**
- ❖ **Similarly, declining employment intensity does not lead to high rate of growth of agriculture.**
- ❖ **Hence, conventional theories of spontaneous labour movement from agriculture to modern sector are unlikely to be valid in Indian context.**

# Conclusion

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- **Issues associated with economic transition in general and agriculture sector in particular.**
- **Agriculture has potential to grow**
- **Smooth transition from agriculture to modern sector requires a consistently reasonable rate of growth of agriculture.**
- **To achieve that the key bottlenecks need to be resolved on an urgent basis.**
- **Emphasis on addressing problems relating to institutions and policies.**

# Policy implications

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- **Need for a comprehensive policy framework to address the issues relating to the economic, ecological and technological factors.**
- **Necessary institutions at micro, meso and macro level for successful implementation of policies and programmes.**
- **Adequate emphasis on institutions in the context of farmland acquisition for industrialisation.**
- **Transparency and accountability for land transaction between the farmers and companies**
- **Necessity of institutions to remove product and factor market imperfections for sustainable agricultural development and industrial growth.**

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Thank you for your attention!