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## ‘Inclusive Growth’: How is India Doing?<sup>1</sup>

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### Abstract

*Inclusive growth was the over-arching objective set in India’s 11<sup>th</sup> Five-Year Plan for the period 2007-2012; and the aim of this paper is briefly to review evidence and argument about India’s progress towards realising this vision. Prime Minister Manmohan Singh, in his Foreword to the Plan document, wrote of the need to ensure that ‘income and employment are adequately shared by the poor and weaker sections of our society’, and there is – unfortunately – a lot of evidence suggesting that this is not happening. Rather there is evidence in support of the view that India is characterised by extensive exclusion of labour. Data from the National Sample Survey show that productive jobs are not being created at anything like the rate required for ‘inclusive growth’ to be realised, and it is possible that there is even an inverse relationship between economic growth in India, and productive employment. The agricultural economy, meanwhile, remains both inefficient and inequitable. Recent developments in India’s policies for social protection – such as the National Rural Employment Guarantee scheme – may perhaps be understood as reflecting the failures of ‘inclusive growth’.*

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<sup>1</sup> This paper draws extensively on work done by the author, at ISAS, for a collaboratively written book entitled *India Today: Economy, Politics and Society* (Cambridge: Polity, forthcoming 2012), with Stuart Corbridge (London School of Economics) and Craig Jeffrey (Oxford).

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## Introduction

‘Inclusive Growth’ was the theme of India’s Eleventh Five Year Plan, for the period 2007-2012, and it was the title of the first main volume of the Plan document. The Prime Minister, Manmohan Singh, spoke of the Plan in his Foreword as ‘a comprehensive strategy for inclusive development’, and it was said that:

‘The central vision of the Eleventh Plan is to build on our strengths to trigger a development process which ensures broad-based improvement in the quality of life of the people, especially the poor, SCs/STs, other backward castes (OBCs), minorities and women.’<sup>3</sup>

The aim of this paper is briefly to review evidence and argument about India’s progress towards realising this vision. The Prime Minister, in his Foreword, wrote of the need to ensure that ‘income and employment are adequately shared by the poor and weaker sections of our society’, and there is – unfortunately - a lot of evidence that suggests this is not happening.

The most recent findings of the National Sample Survey show that productive jobs are not being created at anything like the rate which is required for ‘inclusive growth’, and there are even indications that there may be an inverse relationship between economic growth in India, and the creation of productive employment. Further, even if income poverty, as this is conventionally defined, has been declining – and there is much debate over this, associated with the technical problems of determining the incidence of poverty that are reflected in the radically different estimates produced by different government bodies<sup>4</sup> - the estimations made by Burgess and Besley<sup>5</sup> of the elasticity of poverty with respect to income per capita, for India by comparison with the various regions of the developing world from 1990 to 2015, suggest that India has done rather poorly. India dominates the score for South Asia, which is minus 0.59. Separately, Besley, Burgess and Esteve-Volart<sup>6</sup> estimate the average elasticity score for India as -0.65. These scores are bettered by all regions, save for sub-Saharan Africa. According to these calculations, and assuming constancy in other factors, growth in East Asia and the Pacific - dominated by China - is likely to be almost twice as effective in reducing poverty as in South Asia over the same period. Other indicators, meanwhile, of the quality of

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<sup>3</sup> Planning Commission (Government of India), *Eleventh five-year plan 2007-2012. Volume 1: inclusive growth* (Delhi, Oxford University Press, 2008), p.2.

<sup>4</sup> Jean Dreze reports with regard to rural poverty that four alternative estimates are available: 28 per cent from the Planning Commission, 50 per cent from the N.C.Saxena Committee Report, 42 per cent from the Tendulkar Committee Report, and 80 per cent or so from the NCEUS. As he goes on to say ‘...it is important to remember that the poverty line is, ultimately little more than an arbitrary benchmark’. (‘Poverty estimates vs food entitlements’, *The Hindu* 24 February, 2010).

<sup>5</sup> Robin Burgess and Timothy Besley, ‘Halving global poverty’, *Journal of Economic Perspectives*, Vol.17, no 3(2003), pp.3-22.

<sup>6</sup> Timothy Besley; Robin Burgess and Berta Esteve-Volart, ‘The policy origins of poverty and growth in India’, in Timothy Besley and Louise Cord (eds). *Delivering the promise of pro-poor growth: insights and lessons from country experiences* (New Delhi, World Bank, 2007), p.62

life of the people have hardly improved and some have shown deterioration. India's failure, so far, to reduce malnutrition amongst small children (aged 0-5) – the proportion of such children who are underweight, according to data from successive national Family Health Surveys, declined by less than one percentage point between 1999-99 and 2005-06, from 46.7 to 45.9 per cent – is one particularly poignant marker of the still very poor quality of life of a great majority of the people.

The paper starts by explaining the context of the problem of realising inclusive growth. This is in the limited structural transformation of India's economy, or what some refer to as failed transition. There follow accounts of the particular problems of the agricultural economy and of employment trends. As the paper explains, the agricultural economy in which the majority of the people are still employed, remains in difficulty, while high rates of economic growth outside agriculture have not generated very many of the kinds of jobs that would have enabled people from the 'poorer and weaker sections' of society – to whom the 11<sup>th</sup> Plan specifically refers - to share in the benefits of growth.

### **The Context: India's 'Lopsided', 'Failed' or 'Tortuous' Transition**

The three adjectives of this heading refer to the different ways in which different authors (the *National Commission on Enterprises in the Unorganized Sector (NCEUS)*, Partha Chatterjee<sup>7</sup>, and Pranab Bardhan<sup>8</sup> respectively) describe a cardinal fact about India's economy. This is that the structural transformation of the economy has not been completed, in spite of years of high rates of economic growth - and India's 'transition to an enlarged and dominating sphere of capital in the economy'<sup>9</sup> is correspondingly problematic. In India, the declining relative share of income from the agricultural sector has not been accompanied by an equivalent decline in employment in that sector. In 1950-51, agriculture accounted for 61 per cent of GDP and for 76 per cent of employment<sup>10</sup> while it now contributes less than 20 per cent of GDP (16 per cent in 2007-08) but still employs around 60 per cent of the labour force, according to Census data from 2001, or 54 per cent in 2004-05, according to data from the National Sample Survey (NSS) showing the daily employment status of individuals, by activity (see Table 1, but note that NSS data for 2007-08 show the share of farm employment as 55.4 per cent<sup>11</sup>). The lowest share of agriculture in GDP across states is 9.5 per cent, in

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<sup>7</sup> Partha Chatterjee, 'Democracy and economic transformation in India', *Economic and Political Weekly*, Vol. 43, no 16(2008), pp.53-62.

<sup>8</sup> Pranab Bardhan, 'Notes on the political economy of India's tortuous transition', *Economic and Political Weekly*, Vol. 44, no.49 (2009), pp.31-36.

<sup>9</sup> *Ibid.*, p. 3.

<sup>10</sup> C.P. Chandrasekhar, 'Progress of "reform" and retrogression of agriculture', Retrieved from <http://www.macrosan.org/anl/apr07/anl250407Agriculture.htm>. Accessed June 21, 2010.

<sup>11</sup> Himanshu, 'Employment trends in India: a re-examination', *Economic and Political Weekly*, Vol.46, no.37 (2011), p.47.

Maharashtra, where the level of agricultural employment, however, remains at more than 53 per cent.<sup>12</sup>

**Table 1: Employment Structure in India – Daily Status (per cent)**

Year	Agr	Mfg	CTT	G&P	Total
2004-05	53.9	12.8	21.8	09.00	97.5
1999-2000	58.0	12.1	18.9	08.90	97.9
1993-94	61.1	11.4	14.8	10.80	98.1
1983	63.4	11.8	13.3	09.90	98.4

Source: after Eswaran *et al.*<sup>13</sup>

Agr=Agriculture; Mfg=Manufacturing; CTT=Construction, Trade and Hotels, Transport, Storage and Communications; G&P=Government Services, Education, Health, Community Services, Personal Services. Total less than 100 per cent because employment shares of mining and of real estate and finance are not included.

The shift of labour from agriculture in India has been less than in some comparator countries (Table 2), though there is less sharp a contrast with China than Bardhan<sup>14</sup> suggests an important point of difference between India and China is that in China 55 per cent of the cumulative increase in GDP between 1990 and 2005 was accounted for by manufacturing, which has generated relatively more employment than the services sector that accounts for 60 per cent of the increase in GDP over the same period in India – though in China, too, labour is now being absorbed increasingly into services.

<sup>12</sup> Mahendra S. Dev, *Inclusive growth in India: agriculture, poverty and human development* (Delhi, Oxford University Press, 2008), Table 7.11.

<sup>13</sup> Mukesh Eswaran; Ashok Kotwal; Bharat Ramaswami and Wilima Wadhwa, ‘Sectoral labour flows and agricultural wages in India, 1983-2004: Has growth trickled down?’, *Economic and Political Weekly*, Vol.44, no.2(2009), Table 6.

<sup>14</sup> Pranab Bardhan, ‘Notes on the political economy of India’s tortuous transition’, p.33.

**Table 2: Distribution of GDP and of Employment across Sectors in India and comparator countries**

<i>Country</i>	<i>GDP (2007)</i>			<i>Employment (2005/2006)</i>		
	<i>agriculture</i>	<i>industry</i>	<i>services</i>	<i>agriculture</i>	<i>industry</i>	<i>services</i>
<b>India</b>	<b>17.7</b>	<b>29.4</b>	<b>52.8</b>	<b>53.9</b>	<b>12.8</b>	<b>30.8</b>
China	11.3	48.6	40.1	42.6	23.8	32.2
Brazil	5.5	28.7	65.8	19.3	21.4	57.9
Indonesia	13.8	46.7	39.4	42.0	18.7	37.2
Pakistan	20.6	26.6	52.8	43.4	20.3	36.6
Bangladesh	19.0	28.7	52.3	48.1	14.5	37.4

Note: 'Employment' refers to distribution of the labour force by occupation/sector

Source: World Bank Data (accessed at [www.worldbank.org/data](http://www.worldbank.org/data) September 2011)

Dispossession of small-scale agricultural producers has gone on, and continues to go on, for industrial, mining and infrastructural projects across the country, and has increasingly encountered resistance from them in actions that may involve the Maoists, who are now organised across about one-third of the districts of the country. The Indian agricultural economy, however, is still characterised by extensive small-scale, household-based production. The distribution both of ownership and of operational holdings is distinctly pear-shaped, and what are described as 'marginal' operated holdings (of one hectare, or less, in extent) now account for 70 per cent of the total. Most such holdings are unlikely to be capable of 'providing enough work or income to be the main livelihood of the household'<sup>15</sup>. Estimations made by Vikas Rawal<sup>16</sup>, using data from the 59<sup>th</sup> round of the National Sample Survey (NSS) for 2003-04 show that 31 per cent of rural households across the country as a whole own no land at all, and another 30 per cent own less than 0.4 hectare (or about one acre of land), while only a little over five per cent of households own more than three hectares (and just 0.52 per cent own more than 10). The absolute numbers and the relative share in the rural population of households without land – which have for long been considerable – have been increasing. The data from 2003-04 are not strictly comparable with those from an earlier round of the NSS, for 1992, but Rawal believes that they suggest an increase of as much as six percentage points in landlessness, while inequality in land ownership also increased. Still, over most of the country landlordism, where small producers depend for access to land and other assets upon the owners of large estates, has declined. The share of leased-in land in the total operated area, according to the NSS, declined from 10.7 per cent in 1960-61 to just 6.5

<sup>15</sup> Peter, Hazell; C. Poulton; S. Wiggins and A. Dorward, *The future of small farms for poverty reduction and growth* (Washington, International Food Policy Research Institute, 2007).

<sup>16</sup> Vikas Rawal, 'Ownership holdings of land in rural India: putting the record straight', *Economic and Political Weekly*, Vol.43, no.10 (2008), pp.43-47.

per cent in the *kharif* (summer) season of 2002-03.<sup>17</sup> Traces of classic ‘landlordism’ remain, however, and inequality in land ownership still gives considerable power locally – economic, social and political - to the relatively small numbers of larger landowners and the increasing numbers of capitalist farmers.

At the same time those depending upon wage employment have not, generally, been able to find what we might label as good jobs in the organised or formal sector, and the most dynamic and productive sectors of the economy, and they take up activities in the unorganised or informal economy, outside the purview of most employment legislation, and which are often not very productive. Workers who are informally employed have no protection – against the loss of their jobs, or in event of illness - and receive no benefits from employers. They are usually low paid, and their work and their incomes are commonly irregular, though they may also work very long hours and in hazardous workplaces. It is reliably estimated that about two-thirds of India’s GDP comes from such unregistered, informal activity, and that it accounts for more than 90 per cent of livelihoods – more than half of them being generated from self-employment (see Lerche 2010 for discussion of the informal economy and classes of labour). Meanwhile, according to data presented by the NCEUS the absolute numbers of protected ‘formal sector’ jobs actually declined marginally from 33.7 million to 33.4 million between 1999-2000 and 2005-05 (Table 3) – though they have increased again since then.<sup>18</sup>

**Table 3: Employment by type and sector (millions)**

Sector	1999-2000			2004-05		
	Informal workers	Formal workers	Total workers	Informal Workers	Formal workers	Total workers
<b>Informal</b>	341.3	1.4	342.6	393.5	1.4	394.9
<b>Formal</b>	20.5	33.7	54.1	29.1	33.4	62.6
<b>Total</b>	361.7	35	396.8	422.6	34.9	457.5

Source: Sanyal and Bhattacharyya (2009), citing NCEUS

<sup>17</sup> Recent findings from village surveys conducted by the Foundation for Agrarian Studies in several parts of the country - western UP, coastal Andhra and parts of Punjab, for instance – suggest that the incidence of tenancy is increasing again, rather rapidly, and at onerous rates for tenants (Professor V.K.Ramachandran, personal communication).

<sup>18</sup> Himanshu, ‘Employment trends in India: a re-examination’, p.56.

While a classic theory holds that those employed (often self-employed) in informal activities constitute a reserve army of labour, necessary for the development of industrial capitalism over the longer run, it has been suggested (in an argument that will be considered further below) that in India now a large share of the labour force as a whole is better described as 'excluded', being unnecessary for the growth of the economy as a whole, and surviving in a wide range of activities that are of only marginal significance for the dynamic, corporate sector.<sup>19</sup> Whatever one makes of this argument it is clear that the narrative of structural transformation and societal transition breaks down in regard to modern India. This paper analyses the implications of the 'failed' transition.

### **Trends in Indian Agriculture – a Record of Failure?**

The fact that there has been such little movement out of agricultural employment, even as the share of agriculture in GDP has declined, means that the majority of the people of India still depend on agriculture for their livelihoods. So if the agricultural economy is not doing well – if productivity is not increasing - then it follows that most of the people won't be doing very well either. As the London *Economist*<sup>20</sup> puts it 'the (Indian) government cannot achieve the 'inclusive' growth it aspires to without robust progress in agriculture'.

Yet, as Pranab Bardhan argues forcefully 'the agriculture sector is in bad shape'<sup>21</sup>, after a decade – 1994-5 to 2004-05 – of the lowest growth rates in the sector (0.6 per cent per annum, according to his calculations) since Independence. This is the result of the very high incidence, now, of marginal holdings, of the costs of inputs, the degradation of the natural resource base, declining public investment, and decreased access to public sector credit. One tragic but powerful marker of the fact that many cultivators have not been doing at all well in recent times is the high rate of suicides amongst them, that began to be reported in the later 1990s. A systematic study of this phenomenon, by K. Nagaraj<sup>22</sup>, based on an analysis of the data on 'Accidental Deaths and Suicides in India', published by the National Crime Records Bureau (NCRB), for suicides amongst those described as 'self-employed in farming/agriculture' over the period 1997-2006, confirms that the rate of suicides amongst farmers is high by comparison with that for the general population. More significantly, Nagaraj believes that the suicide rate amongst farmers has been increasing, at least from the year 2001 onwards, while the general rate has been more or less stable. The finding that the suicide rate amongst farmers has been increasing is confirmed in the most recent data from the NCRB, which show that India has seen over a quarter of a million of farmer suicides between 1995 and 2010, with the numbers having accelerated over the second half of this

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<sup>19</sup> K. Sanyal and R. Bhattacharyya, 'Beyond the factory: globalisation, informalisation of production and the new locations of labour', *Economic and Political Weekly*, Vol. 44, no.22 (2009), pp.35-44.

<sup>20</sup> Editorial, 'Jobless growth', *Economic and Political Weekly*, Vol.45, no.39 (2010), pp.7-8.

<sup>21</sup> Pranab Bardhan, 'Notes on the political economy of India's tortuous transition', p.31.

<sup>22</sup> Karkada Nagaraj, 'Farmers' suicides in India: magnitudes, trends and spatial patterns'. Retrieved from [www.macrosan.org/anl/mar08/anl030308Farmers\\_Suicides.htm](http://www.macrosan.org/anl/mar08/anl030308Farmers_Suicides.htm). Accessed June 21, 2010.

period.<sup>23</sup> These data confirm, too, that the five states of Maharashtra, Karnataka, Andhra Pradesh, Chhattisgarh and Madhya Pradesh are the ones that have been most affected (accounting for two-thirds of the national total of farmer suicides), and Nagaraj argues that ‘there is a contiguous, dry, semi-arid, poor, backward region within these states...where the problem must be very severe’. This is a region, he suggests, in which agro-ecological conditions make for high levels of vulnerability, where under the impact of policies of economic liberalisation, agriculture has been particularly badly affected by the withdrawal of state services, and where there is a lack of alternative livelihood opportunities. Arvind Panagariya, on the other hand, though he refers to comparable findings about the trends, argues that ‘existing studies do not systematically connect the dramatic rise in farmer suicides in certain regions to the reforms’<sup>24</sup>. This follows from his reliance on sources that analyse reasons given for individual suicides by close relatives and friends – an approach that is sensibly critiqued by Nagaraj, drawing not least on the authority of Durkheim’s arguments in his classic *Suicide*. Structural, social conditions – in this case having to do at least in part with changes relating to liberalisation - underlie the enormously diverse reasons that are attributed to individual acts of suicide.

‘Farmers’ suicides’ is an emotive indicator of the existence of an agrarian crisis. But what of other evidence to justify this idea with reference to the current state of Indian agriculture? While it is extremely difficult, given the considerable variance in the performance of the agricultural economy from year to year – due to the highly uncertain climatic conditions characteristic of most of India - to draw clear-cut conclusions about growth trends, and much depends of course on which years or groups of years are taken for comparison over time, there is no doubt about the fact that the growth of agriculture has lagged behind that of the rest of the economy. That this has been particularly marked in the period of high overall growth after 2003 was recognised both by the Prime Minister, Manmohan Singh, and by Montek Singh Ahluwalia, the Deputy Chairman of the Planning Commission, in speeches made in 2010<sup>25</sup>. Both regretted that agriculture had been growing at a rate of only about two per cent per annum (though see also Bardhan 2009, cited above), as against the target of four per cent per annum set in the Eleventh Plan, and both spoke of the need to raise the growth rate. Table 4 sets out two different estimates of growth rates by acknowledged authorities.

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<sup>23</sup> *The Hindu*, 29 October 2011.

<sup>24</sup> Arvind Panagariya, *India: the emerging giant* (Oxford, Oxford University Press, 2008), p.154.

<sup>25</sup> *The Hindu*, 18 and 20 June 2011.



**Table 4: Agricultural Growth Rates**

Bhalla and Singh (2009)				Panagariya (2008)			
<i>Annual compound growth rate (%) of value of output</i>				<i>Annual growth rates (%) of agricultural output (at factor cost)</i>			
1980-83/1962-65	1990-93/1980-83	2003-06/1990-93	2003-06/1962-65	1951-65	1965-81	1981-88	1988-2006
<b>2.24</b>	<b>3.37</b>	<b>1.74</b>	<b>2.36</b>	<b>2.9</b>	<b>2.1</b>	<b>2.1</b>	<b>3.4 *</b>
Source: calculated from Ministry of Agriculture data				*But 2.3% in 2000-2006 Source: calculated from data in the RBI <i>Handbook of Statistics on the Indian Economy</i>			

Other estimates suggest, like those calculated by Bhalla and Singh, that the period of India's economic reforms has been marked by lower rates of growth of the agricultural economy<sup>26,27</sup>. The noted agricultural economist A. Vaidyanathan argues, however, that 'rigorous statistical tests on official time series do not provide strong corroboration of a progressive deceleration of agricultural growth'<sup>28</sup>. But he points out as well that these data also show that the average of annual changes in total output, area and yields are lower, and much more volatile, over the 15 years after 1989 than they were in the preceding period of 20 years.

Not only this, but disproportionality – the gap, that is, between the growth rates of agriculture and of non-agriculture has increased sharply from about two per cent in the 1970s to just under four per cent in the 1990s, and to more than five per cent between 2000-01 and 2003-04. The acceleration of non-agricultural growth in the first decade of the century has actually been accompanied by declining rates of growth of agriculture, but alongside low levels of inflation (until the recent past). It appears, then, that domestic agricultural growth is no longer such a constraint on the growth of non-agriculture as was the case before. Previously disproportionate growth between agriculture and non-agriculture tended to be self-correcting, because sluggish growth of agriculture would give rise to inflationary pressures and higher prices for industrial inputs and wage goods, and so tend to slow the rate of growth of non-agriculture. But non-agriculture is now much less dependent on inputs from agriculture, while (as we discuss in depth later in this paper) non-agricultural growth has not generated very

<sup>26</sup> Mukesh Eswaran; Ashok Kotwal; Bharat Ramaswami and Wilima Wadhwa, 'Sectoral labour flows and agricultural wages in India, 1983-2004: Has growth trickled down?', pp.46-55.

<sup>27</sup> A.Vaidyanathan, 'Agricultural Growth in India: Role of Technology, Incentives and Institutions', (New Delhi, Oxford University Press, 2010), Chapter 1.

<sup>28</sup> A. Vaidyanathan, 'Farmers' suicides and the agrarian crisis', *Economic and Political Weekly*, Vol.41, no.38,(2006) p.4011.

much employment. Though the growth of the labour force somewhat recovered after 2000 real wages for most groups of workers actually declined, and a large share of the increase in employment was accounted for by self-employment, much of it amongst women. There are strong reasons, indeed, for thinking that employment growth in this period was distress-driven (see below<sup>29</sup>). The net result has been that agriculture has been facing increasing demand constraints while inputs costs have been rising. C.P. Chandrasekhar concludes from his analysis that ‘it appears...the growth process in a more open and liberalised environment is (such) that the peasantry has a much smaller role in sustaining economic growth and can thus be partially *excluded* from development’. Increasing disproportionality, and the factors that account for it, underlie the agrarian distress that is now found over much of the country.<sup>30</sup>

Agrarian distress is reflected in Prabhat Patnaik’s calculation<sup>31</sup> that over the period from 1994-5 to 2003-04 the real per capita incomes of India’s agriculturally dependent population remained stagnant, when per capita incomes for the country as a whole increased by more than four per cent (see also the similar findings of Krishna and Bajpai<sup>32</sup>). The point is brought home in findings of the Foundation for Agrarian Studies from village surveys in Andhra Pradesh, Uttar Pradesh and Maharashtra that it was virtually impossible in 2005-06 for households with operational holdings of two hectares of land or less (who account for all but a small share of all the cultivators in the country, remember), to earn an income sufficient for family survival. The net annual incomes from crop production of very many households were actually negative.<sup>33</sup>

The rural poor include large numbers of cultivating households, but an even greater share of agricultural labour households, as we show in Table 5. They might be expected to have been even more badly affected by the agricultural crisis than have been cultivating households. The NSS data suggest that agricultural wage employment increased at about one per cent per annum between 1993-94 and 1999-2000 (a lower rate than in the 1980s), even while total agricultural employment stagnated, but that it has subsequently declined. In line with these trends, the NSS data show that the annualised rate of growth of weekly earnings in agriculture declined from 3.27 per cent in 1983 to 1993-94, to 1.82 per cent in 1993-94 to 1999-2000, and to 1.11 per cent in the period from 2000 to 2004-05. The series, *Agricultural Wages in India*, shows a similar path of declining wage increases, and also that real wage rates in most operations actually fell in many districts across the country in the 1990s. In line with these trends there is evidence of increasing indebtedness amongst agricultural labourers,

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<sup>29</sup> Himanshu, ‘Employment trends in India: a re-examination’, pp.53-55

<sup>30</sup> C.P. Chandrasekhar, ‘Progress of “reform” and retrogression of agriculture’. Retrieved from <http://www.macrosan.org/anl/apr07/anl250407Agriculture.htm>. Accessed June 21, 2010.

<sup>31</sup> Praveen Jha, ‘Some aspects of the well-being of India’s agricultural labour in the context of the contemporary agrarian crisis’. Retrieved from [http://www.macrosan.org/anl/feb07/anl220207Agrarian\\_Crisis.htm](http://www.macrosan.org/anl/feb07/anl220207Agrarian_Crisis.htm). Accessed 21 June, 2010.

<sup>32</sup> Anirudh Krishna and Devendra Bajpai, ‘Lineal spread and radial dissipation: experiencing growth in rural India, 1993-2005’, *Economic and Political Weekly*, Vol.46, no.38 (2011), pp.44-51

<sup>33</sup> V.K Ramachandran and Vikas Rawal, ‘The impact of liberalisation and globalisation on India’s agrarian economy’, *Global Labour Journal*, Vol.1, no.1 (2010), pp.56-91.

especially to informal lenders, and of weakening of school attendance amongst children from agricultural labour households<sup>34,35</sup> (See Pangariya<sup>36</sup>, for a contrary view, depending on data from the annual Costs of Cultivation surveys. There is uncertainty about wage trends).

**Table 5: Classification of rural households according to major earnings source, 2004-05**

Income source	Non-poor households	Poor households
Self-employed in non-agriculture	16.5	12.9
Agricultural labour	22.1	41.8
Other labour	10.3	12.1
Self-employed in agriculture	38.4	26.7
Others	12.7	6.5

Calculated from NSS data<sup>37</sup>

Where real agricultural wages have increased, as in some parts of rural Tamil Nadu, it is in circumstances in which there has been an increase in non-agricultural employment opportunities<sup>38</sup>. Agricultural labour itself has become increasingly feminised, and – most likely – increasingly ‘dalitised’, as those from the Scheduled Castes confront particular barriers in entering even many casual laboring jobs outside agriculture.<sup>39,40</sup> The rate of growth of rural non-agricultural employment in India, however, over the period from 1993-94 to 1999-2000, at 2.26 per cent per annum, was more than twice the rate of growth of agricultural employment (1.06 per cent), and was higher still in the period to 2004-5, at 5.27 per cent per annum, according to NSS data.<sup>41</sup> Such increases in agricultural wages as have taken place have probably followed from tightening in rural labour markets where non-farm

<sup>34</sup> Mukesh Eswaran; Ashok Kotwal; Bharat Ramaswami and Wilima Wadhwa, ‘Sectoral labour flows and agricultural wages in India, 1983-2004: Has growth trickled down?’, pp.46-55

<sup>35</sup> Praveen Jha, ‘Some aspects of the well-being of India’s agricultural labour in the context of the contemporary agrarian crisis’. Retrieved from [http://www.macrosan.org/anl/feb07/anl220207Agrarian\\_Crisis.htm](http://www.macrosan.org/anl/feb07/anl220207Agrarian_Crisis.htm). Accessed 21 June, 2010.

<sup>36</sup> Arvind Panagariya, *India: the emerging giant* (Oxford, Oxford University Press, 2008), p.148.

<sup>37</sup> Mukesh Eswaran; Ashok Kotwal; Bharat Ramaswami and Wilima Wadhwa, ‘Sectoral labour flows and agricultural wages in India, 1983-2004: Has growth trickled down?’, pp.46-55.

<sup>38</sup> John Harriss; J. Jeyaranjan and K.Nagaraj, ‘Land, labour and caste politics in rural Tamil Nadu in the 20th century: Iruvelpattu (1916-2008)’, *Economic and Political Weekly*, Vol.45, no.31 (2010), pp.47-61.

<sup>39</sup> Barbara Harriss-White, *India Working: Essays on Economy and Society* (Cambridge, Cambridge University Press, 2003).

<sup>40</sup> Judith Heyer, ‘The marginalisation of dalits in a modernising economy’, in Barbara Harriss-White and Judith Heyer (eds), *The comparative political economy of development* (London, Routledge, 2010).

<sup>41</sup> Himanshu, ‘Recent trends in poverty and inequality: some preliminary results’ *Economic and Political Weekly*, Vol.42, no.6 (2007), Table 8.

employment is available. Rural distress, following from the crisis in agriculture that is attested most tragically in farmer suicides, but shown up in the evidence on declining trends in the growth of agricultural output and productivity, has been offset, no doubt, by the growth in non-farm employment opportunities. This is often associated, however, with increased migration, both rural-rural and rural-urban, much of it circular (when people move to and fro between village homes and distant work sites). One recent estimate is that the numbers of such circulating migrants have reached 100 million, though the NCEUS estimates that the number of seasonal migrants is of the order of 30 million<sup>42 43</sup>. What we know of the conditions of life and work of this mobile labour force is limited<sup>44</sup>, but shows that though workers may earn more than in agriculture, their livelihoods are characterised by high levels of vulnerability – exactly as are those of the larger numbers of those in the mobile labour force of China. Thus far, however, there has been less political mobilisation in protest against rural distress in the major agricultural regions of India than there has been in China, where the widespread occurrence of violent incidents has led the government to elevate rural development as a national priority<sup>45</sup>.

### **Why such a Crisis?**

The proximate causes of the problems of the Indian agricultural economy are quite well understood. The sector has depended historically on substantial state intervention, including investments in research and infrastructure, and the provision of extensive subsidies, both for key inputs (fertilisers, electricity and water supplied through public irrigation schemes) and underpinning the prices that farmers receive for their products. It also benefited from legislation requiring major banks to open rural branches and to meet certain targets for the supply of credit to agriculture. In the context of India's economic reforms all these have been reduced or eliminated, and at the same time domestic agriculture has been progressively opened up to the world market, exposing some cultivators to much greater price volatility (for an account of liberalisation measures in agriculture see Vakulabharanam<sup>46</sup>).

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<sup>42</sup> Kate Bird and Priya Deshingkar, 'Circular migration in India', *ODI Policy Brief*, no.4 (2009).

<sup>43</sup> Priya Deshingkar and John Farrington (eds), *Circular migration and multi-locational livelihood strategies in Rural India* (Delhi, Oxford University Press, 2009).

<sup>44</sup> Ben Rogaly; Daniel Coppard; Abdur Safique; Kumar Rana; Amrita Sengupta and Jhuma Biswas, 'Seasonal migration and welfare/ill-fare in eastern India: a social analysis', *Journal of Development Studies*, Vol.38, no.5 (2002), pp. 89-114.

<sup>45</sup> Xian Yuan Dong; Paul Bowles and Hongqin Chang, 'Managing liberalisation and globalisation in rural China: trends in rural labour allocation, income and inequality', *Global Labour Journal*, Vol.1, no.1 (2010), pp.31-55.

<sup>46</sup> Vamsi Vakulabharanam, 'Growth and distress in a south Indian peasant economy during the era of economic liberalisation', *Journal of Development Studies*, Vol.41, no.6 (2005), pp.971-997.

As Ramachandran and Rawal<sup>47</sup> have pointed out, government expenditure in the countryside has declined in relative terms; investment in agriculture as a proportion of GDP fell from 1.92 per cent in 1990 to 1.31 per cent in 2003, and gross capital formation in agriculture, again as a percentage of GDP, declined from 3.8 per cent in 1980-81 to 1.7 per cent during 2004-05. The same authors explain how financial liberalisation meant that the expansion of public sector rural banking was brought to an end, and many rural branches of commercial banks were shut down; the credit-deposit ratios of rural commercial banks fell sharply; advances to small farmers, to *dalits* and to *adivasis* declined – while the share of informal credit in the principal borrowed by rural households increased. There has been some reversal of these trends in the most recent past, under the United Progressive Alliance government after 2004. At the same time, however, the costs of inputs have increased sharply, because of the decline in administrative price support, while the Minimum Support Prices offered by government to ensure remunerative prices for farmers’ output ‘have not compensated the actual costs of production per unit of output for most crops in a majority of states’<sup>48</sup> – so farmers have been subjected to a severe cost-price squeeze. Until 2007-08 the prices of most agricultural commodities in world markets witnessed a secular downward trend, though not without fluctuations. Vaidyanathan has argued that ‘available evidence does not corroborate apprehensions that liberalisation has adversely affected domestic prices of farm products’.<sup>49</sup> Other economists, however, believe that price volatility, in particular, has increased the vulnerability of many cultivators. Altogether, policy changes inspired by a liberal approach in economic policy – particularly the slowing down of public investment - have had an adverse impact upon agriculture, certainly in the short term (perhaps especially, as Nagaraj – cited earlier – argues in regard to farmer suicides, in the dry belt where most of them have taken place).

Neither liberalisation policies, however, nor the earlier mode of state intervention in agriculture, effectively addresses fundamental problems having to do with the inefficient and often wasteful use of agricultural resources – including the failure to use irrigation water efficiently, partly because of neglect in the maintenance of irrigation structures and limitations of their design, excessive use of chemical fertilizers and degradation of soils. There is a long history of poor use of key agricultural resources in India, by comparison with China and elsewhere in East Asia. This was a theme developed years ago by Gunnar Myrdal in his monumental *Asian Drama* (1968). In the early 1950s, Myrdal showed, the overall productivity of agriculture (in relation to land) was roughly twice as high in China as in India – and it remains so still. In 1999-2000 yields of rice per hectare in China stood at 4.1 tonnes, while in India they were just under 2 tonnes (and still only 2.1 tonnes in 2009-10). The problems of agricultural productivity are connected with institutional weaknesses, as in irrigation management – which is also generally much more efficient in East Asia - and in

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<sup>47</sup> V.K Ramachandran and Vikas Rawal, ‘The impact of liberalisation and globalisation on India’s agrarian economy’, *Global Labour Journal*, Vol.1, no.1 (2010), pp.56-91.

<sup>48</sup> V.K. Ramachandran, and Vikas Rawal, ‘The impact of liberalisation and globalisation on India’s agrarian economy’, p.74.

<sup>49</sup> A. Vaidyanathan, ‘Farmers’ suicides and the agrarian crisis’, *Economic and Political Weekly*, p.4010.

credit and marketing organisation, that are in turn compounded, argues Vaidyanathan, ‘by government policies for pricing of water, electricity, fertilisers and credit which induce demand growth far in excess of available supplies...and encourage inefficient use of scarce agricultural resources’<sup>50</sup> (for detailed corroboration Harriss-White and Janakarajan<sup>51</sup>). Tackling such problems calls for more than just increasing public investment<sup>52</sup>.

### **And What is to be Done About it?**

The critical policy questions, therefore, are not well addressed either by a dogmatic adherence to economic liberalism or by the restoration of older policies of state intervention in agriculture. Arvind Panagariya<sup>53</sup> is a champion of the broader liberal policy framework, but his advocacy of reducing subsidies and increasing investment in agriculture is shared by other economists, who are not. His point that the policy of setting Minimum Support Prices for agricultural products mainly subsidises farmers in the relatively rich states of Andhra Pradesh, Punjab and Haryana, is also well taken, and there are strong arguments, no doubt, in favour of using direct cash transfers for poverty reduction – which Panagariya supports, but which, until very recently, Indian policy-makers generally rejected – to replace the Public Distribution System that supplies rations of essential commodities at controlled prices to those who are defined as being Below Poverty Line (BPL).

What is most controversial in Panagariya’s policy argument is his advocacy of contract farming and with it of much more corporate involvement in agriculture – bound up with the supermarket revolution that continues to encounter political resistance in India – and supported by reversal of the policy of redistributive land reform to which the Indian state has been formally committed historically. He believes that the development of contract farming is severely constrained if it has to involve transacting with large numbers of marginal and small farmers, and that the fragmentation of agricultural holdings has negative effects on productivity. The policy of redistributive land reform has largely failed – by 1992 the total area of land redistributed amounted to only 1.25 per cent of operational holdings across 18 major states – and the protection of user rights of cultivators is now much more important, in Panagariya’s view, than is redistribution.

There are strong arguments, no doubt, in favour of contract farming. A group of leading Bengali economists, for example, in proposing a ‘Strategy for Economic Reform in West Bengal’ in 2003, noted the achievements of agrarian reform in the state, but – given the long-

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<sup>50</sup> A. Vaidyanathan, ‘Farmers’ suicides and the agrarian crisis’, p.4013.

<sup>51</sup> Barbara Harriss-White and S.Janakarajan (eds), *Rural India faces the 21st century* (London, Anthem Press, 2004).

<sup>52</sup> A.Vaidyanathan, ‘Agricultural Growth in India: Role of Technology, Incentives and Institutions’, Chapters 4 and 5.

<sup>53</sup> Arvind Panagariya, *India: the emerging giant*, Chapter 14.

run demand constraints on rice agriculture and the need for agricultural diversification - argued forcefully in favour of exploring the potential of contract farming in the production of vegetables, fruit and flowers.<sup>54</sup> They, and others, argue that contract farming can be 'win-win' under appropriate institutional conditions that ensure transparency and provide some protection for farmers.<sup>55</sup> But a recent report from the Government of India on supermarket retail chains reaches rather negative conclusions, arguing that 'the noise about smallholder benefit in high value crops due to retail chain linkage is exaggerated and the linkage is either weak or absent'.<sup>56</sup> Exactly as Panagariya suggests, supermarkets and other corporates are not interested in transacting with large numbers of small farmers. So what is the future for the vast majority of Indian farmers? The sequencing here is all important – and there are very good reasons for fearing that in the absence of employment opportunities outside of agriculture then their exclusion from contract farming and even more the displacement of small farmers by the corporate take-over of agricultural land will lead to further impoverishment.

On the other hand, the fact that land redistribution has not taken place to any great extent does not mean that there is no longer a case for it. We noted earlier the extent of inequality in the distribution of agricultural land, and that inequality has been increasing; and Vikas Rawal provides 'ballpark estimates', on the basis of the admittedly crude assumption of a uniform ceiling on ownership holdings of 20 acres, to show that 'there is about 15 million acres of ceiling surplus land in India'. As he goes on to say 'this is more than three times the total amount of land that has ever been redistributed under land reform programmes in all states'.<sup>57</sup> This is not to say that there is a large potential for redistribution, given the fact that only a very small proportion of agricultural land in India has been redistributed hitherto, but it does lend weight to Michael Lipton's conclusion in his recent comprehensive restatement of the case for land reform, that '*In South Asia*, still containing half the world's poor, 10ha is in most countries a large owned farm (and) *there is scope for some further land reform*, but land shortage and growing (though still, surely, seriously inadequate) non-farm work opportunities may largely limit it to creating tiny 'home-gardens' for increasingly part-time rural farmers'.<sup>58</sup> Legislation is being considered, however, and some has been passed that actually raises ceilings on the size of agricultural land-holdings, and facilitates absentee farming by large owners and corporations. As Ramachandran and Rawal say 'such policies reduce the

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<sup>54</sup> Abhijit Banerjee; Pranab Bardhan; Kaushik Basu; Mrinal Datta Chaudhuri; Maitreesh Ghatak; Ashok Sanjay Guha; Mukul Majumdar; Dilip Mookherjee, and Debray Ray, 'Strategy for economic reform in West Bengal', *Economic and Political Weekly*, Vol.37, no.41 (2003), pp.4203-4218.

<sup>55</sup> Haque, 2003.

<sup>56</sup> S. Singh, 'Implementation of FDI in food supermarkets', *Economic and Political Weekly*, Vol.45, no.34 (2010), p.17.

<sup>57</sup> Vikas Rawal, 'Ownership holdings of land in rural India: putting the record straight', p.47.

<sup>58</sup> Michael Lipton, *Land reform in developing countries: property rights and property wrongs*, (London, Routledge, 2009).

extent of land for redistribution, accelerate the loss of land by poor peasants and worsen inequalities in the distribution of land'.<sup>59</sup>

At least as controversial as the matter of contract farming, is the question of whether or not genetic-modification ('GM') has an important part to play in the future of Indian agriculture<sup>60</sup>. Opponents of GM (more accurately, transgenic varieties) have very successfully framed the matter in negative terms, in the face of evidence suggesting quite strongly that cultivation of genetically modified varieties may drastically cut both farmers' expenditure on agro-chemicals, and the environmental and health hazards entailed in their use. Thus it was in 2010 that the Environment Minister, Jairam Ramesh, was persuaded to impose a moratorium on the release of a transgenic brinjal hybrid.<sup>61</sup>

Panagariya argues that the sustainable solution to poverty lies outside agriculture and depends upon moving a much larger share of the total labour force of the country out of agriculture altogether. Reducing the ratio of labour to land, he claims, offers a greater potential for increasing agricultural wages than any conceivable productivity-enhancing reforms in agriculture. These arguments are strong ones, but so long as there isn't such a movement of labour out of agriculture it surely is imperative to improve agricultural productivity and incomes. We return, then, to the problem of the failure of structural transformation in India.

### **Employment Trends, 'Jobless Growth' and Workers' Responses**

One significant indicator of employment trends in India in the period of economic liberalisation is that the highly successful information technology industry, which now contributes such an important share of GDP and of export earnings, generates so little employment. According to NSS data, the IT sector accounted for just 0.7 per cent of the non-agricultural labour force in 2004-5. The sector's revenues by that time accounted for 4.5 per cent of GDP while contributing only 0.21 per cent of aggregate employment.<sup>62</sup> In the following discussion it should be noted that the numbers of those in the Indian workforce grow at the moment by about 10 million persons per year<sup>63</sup>, a figure that greatly exceeds the one for all current employment in 'private sector establishments' (8.8 million in 2006 – of which the IT sector makes up only a small part, according to figures from the Directorate General of Employment and Training<sup>64</sup>).

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<sup>59</sup> V.K. Ramachandran, and Vikas Rawal, 'The impact of liberalisation and globalisation on India's agrarian economy', p.57

<sup>60</sup> Ronald Herring (ed), 'Transgenics and the poor: biotechnology and development Studies', Special Issue of *Journal of Development Studies*, Vol. 43, no.1, pp.63-78

<sup>61</sup> *The Hindu*, 10 February 2011.

<sup>62</sup> C.P. Chandrasekhar, 'Progress of "reform" and retrogression of agriculture'. Retrieved from <http://www.macrosan.org/anl/apr07/anl250407Agriculture.htm>. Accessed June 21, 2010.

<sup>63</sup> Himanshu, 'Employment trends in India: a re-examination', p.52.

<sup>64</sup> Government of India, *Statistical pocket book for 2008* (New Delhi, Planning Commission, 2008).



It has been widely argued that India is experiencing ‘jobless growth’ – a view supported by National Sample Survey (NSS) data showing that the rate of growth of the workforce as a whole, in the later 1990s, fell below the rate of growth of population, and well below its rate of growth in the 1980s and early 1990s (Table 6; see also Dev<sup>65</sup>; Himanshu<sup>66</sup>; and Unni and Raveendran<sup>67</sup>, all of whom estimate the total growth of the workforce between 1993-94 and 1999-2000 at less than one per cent per annum).

**Table 6: Annual rates of employment growth for usual status workers (%)**

Period	Rural	Urban
1983 to 1987-8	1.36	2.77
1987-8 to 1993-4	2.03	3.39
1993-4 to 1999-2000	0.66	2.27
1999-2000 to 2004-5	1.97	3.22
2004-5 to 2009-10	-0.34	1.36

Source: National Sample Survey, various rounds<sup>68</sup> (1983 to 2004-5 calculated by Chandrasekhar 2007)

This notion was contested, however, in interpretations of more recent NSS data that showed acceleration of employment growth in 2000-2005, within both urban and rural areas and amongst both men and women (the authors referred to immediately above all estimate employment growth over this period at a little less than three per cent per year). The ‘jobless growth’ thesis was apparently refuted, and official claims were made that the employment problem had finally been resolved.<sup>69</sup> It was also argued by Sundaram<sup>70</sup> that there had been a marked increase of ‘good quality employment’. The essential points in this case were that self-employment had grown markedly in urban non-agriculture, especially amongst women; casual employment generally had declined; and regular salaried non-agricultural employment had increased, especially for women - at over five per cent per annum in the recent decade. This argument depended heavily upon the assumption that self-employment represents good

<sup>65</sup> Mahendra S. Dev, *Inclusive growth in India: agriculture, poverty and human development* (Delhi, Oxford University Press, 2008).

<sup>66</sup> Himanshu, ‘Recent trends in poverty and inequality: some preliminary results’ *Economic and Political Weekly*, Vol.42, no.6 (2007).

<sup>67</sup> Jeemol Unni and G.Raveendran, ‘Growth of employment (1993-4 to 2004-5): illusion of inclusiveness’, *Economic and Political Weekly*, Vol.42, no.3 (2007), pp.196-199.

<sup>68</sup> C.P. Chandrasekhar, ‘Progress of “reform” and retrogression of agriculture’. Retrieved from <http://www.macrosan.org/anl/apr07/anl250407Agriculture.htm>. Accessed June 21, 2010.

<sup>69</sup> Himanshu, ‘Employment trends in India: a re-examination’, p.44.

<sup>70</sup> K.Sundaram, ‘Employment and poverty in India, 2000-2005’, *Economic and Political Weekly* Vol. 42 (2007), pp.3121-3131.

quality employment because over the period in question there had actually been a decline in all wage employment and a very significant increase in self-employment among all categories of workers. All told about half of all those in the workforce were by that time self-employed. The idea that this is good quality employment reflects the emphasis in current development thinking, internationally, about the virtues of self-employment, which is understood as ‘enterprise’ (a way of thinking that is reflected in the title of India’s ‘National Commission on Enterprises in the Unorganized Sector’). But there are many reluctant entrepreneurs amongst the poor, and the NSS data show that just under a half of all self-employed workers do not find their work remunerative, in spite of their usually low expectations of reasonable returns. Chandrasekhar concludes that a large part of the increase in self-employment has been distress-driven, and that ‘the apparent increase in aggregate employment growth may be more an outcome of the search for survival strategies than a demand-led expansion of productive employment opportunities’.<sup>71</sup>

For Unni and Raveendran, too, the apparently rosy picture painted by Sundaram has to be qualified by recognition that some of the increase of regular salaried jobs was in a subsidiary capacity, indicating part-time working, while the increase in female participation was of women mainly at lower levels of education, implying that their access to employment was either in self-employment or at the bottom of the wage-salaried employment hierarchy. There was evidence, too, from the NSS that the extent of home-working had increased quite significantly, especially amongst women. The increased employment of women in particular in subsidiary, part-time occupations, some of them involving home-working, and large numbers of them being poorly remunerated, are developments that have been characteristic of economies that have participated in economic globalisation.<sup>72</sup> Most significant of all, however, for Unni and Raveendran, was the fact that the average daily real wages of regular workers declined in 2004-05, by comparison with 1999-2000 (particularly for females), indicating the growth of poorly remunerated jobs in urban areas in regular salaried employment. It is altogether likely that the growth of employment in the first five years of the new millennium was driven by distress, at a time when the agricultural economy was in crisis – as Himanshu has shown.<sup>73</sup>

The estimates contained in the report on the 64<sup>th</sup> round of the NSS for 2007-08, and then in those of the 66<sup>th</sup> round of 2009-10, confirm the misgivings of other scholars as against Sundaram’s optimism about the creation of ‘good quality employment’.<sup>74</sup> Total employment increased at a rate of only 0.17 per cent per year between 2004-05 and 2007-08 (the lowest rate of employment generation of the last three decades, and occurring in the context of very high rates of growth of GDP); and rural employment actually declined. The 66<sup>th</sup> round of the NSS shows that between 2005 and 2010 usual status employment increased by just 0.1 per

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<sup>71</sup> C.P. Chandrasekhar, ‘Progress of “reform” and retrogression of agriculture’. Retrieved from <http://www.macrosan.org/anl/apr07/anl250407Agriculture.htm>. Accessed June 21, 2010).

<sup>72</sup> Manuel Castells, *The rise of the network society* (Oxford, Blackwell, 1997).

<sup>73</sup> Himanshu, ‘Employment trends in India: a re-examination’, pp.53-55.

<sup>74</sup> Editorial, ‘Jobless growth’, *Economic and Political Weekly*, p.7.

cent per annum. In this period the deceleration in urban employment (from 4.22 per cent per annum in 1999-2005, to 1.36 per cent in 2005-10) and the decline in rural areas (the rate was 0.34 per cent per annum in 2005 to 2010) was accounted for largely by the sharp fall in female labour-force participation. ‘What seems to have happened is that a large majority of women workers moved into the labour force during 1999-2005 and looked for work outside the home due to the agrarian crisis and distress in rural areas. And it is these women workers who have moved back into their homes as soon as the situation improved because of higher agricultural productivity...’.<sup>75</sup> There is evidence, as Himanshu points out<sup>76</sup>, that there is an inverse relationship between output growth and employment growth.

‘Informalisation’ of employment is of course greatly to be desired according to the advocates of economic liberalisation, for labour market regulation beyond an absolute minimum is held to give rise to inflexibility, and this in turn to reduce employment, because it increases labour costs. Besley and Burgess have concluded from comparison across Indian states that those ‘which amended the Industrial Disputes Act in a pro-worker direction experienced lowered output, employment, investment, and productivity in registered or formal manufacturing’<sup>77</sup>. Their arguments have been subjected to significant criticism<sup>78</sup>, however, and neither theoretical nor empirical work, in relation to India and to other countries, leads to unequivocal conclusions regarding the impact of employment protection legislation. As Bardhan says ‘there is hardly any study on the labour absorption question that conclusively shows that any adverse effect of labour laws is particularly large compared to the effects of other constraints on labour-intensive industrialisation’.<sup>79,80</sup> There is also substantial evidence that ‘employers have been able to find ways to reduce the workforce even with ‘restrictive’ provisions in place’<sup>81</sup> – such as that on the retrenchment of workers - by using the mechanism of the voluntary retirement scheme in the later 1990s. The increase in the numbers of contract workers in the total number of workers in manufacturing, from about 12 per cent in 1990 to over 20 per cent by 2004-05, shows that employers have been able to achieve greater flexibility by effectively informalising a part of the labour force<sup>82, 83</sup>.

Informalisation/‘Flexibilisation’ has certainly been taking place, and its negative consequences for workers are attested in a number of case studies. It is not necessarily the case that total household incomes decline, partly because of increased workforce participation

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<sup>75</sup> *Ibid.*, p.7.

<sup>76</sup> Himanshu, ‘Employment trends in India: a re-examination’, p.56.

<sup>77</sup> Timothy Besley and Robin Burgess, ‘Can regulation hinder economic performance? Evidence from India’, *Quarterly Journal of Economics*, Vol.119, no.1 (2004), p. 91.

<sup>78</sup> A.Bhattacharjea, ‘The effects of employment legislation on Indian manufacturing’, *Economic and Political Weekly*, Vol.44, no.2 (2009), pp.55-62.

<sup>79</sup> Pranab Bardhan, ‘Notes on the political economy of India’s tortuous transition’, p.33.

<sup>80</sup> K.P. Kannan and G.Raveendran, ‘Growth sans employment: a quarter century of jobless growth in Indian manufacturing’, *Economic and Political Weekly*, Vol. 44, no.10, pp.80-91.

<sup>81</sup> A.N. Sharma, ‘Flexibility, employment and labour market reforms in India’, *Economic and Political Weekly* Vol.41, no.21, p.2081.

<sup>82</sup> A.N. Sharma, ‘Flexibility, employment and labour market reforms in India’, p.2081.

<sup>83</sup> R. Nagaraj, ‘Fall in manufacturing employment’, *Economic and Political Weekly*, Vol.39, no.30 (2004), pp.3387-3390.

on the part of women, and in some cases of children, but livelihoods have become much more vulnerable. Jan Breman's analysis of the impact of informalisation in Ahmedabad makes this point very forcefully<sup>84</sup>; and it is shown up as well in Nandini Gooptu's studies of once permanently employed workers in Kolkata.<sup>85</sup> In both cities the decline of 'permanent' formal employment in cotton (in Ahmedabad) and jute mills (in Kolkata) has led to what Mike Davis<sup>86</sup> has referred to – with reference to cities throughout the erstwhile 'third world' - as 'urban involution', meaning the crowding of workers into such activities as local petty trade, transport and construction and (generally in relatively smaller numbers) into small manufacturing workshops. Coping with their changed circumstances has meant, in many households, that women, and children, have entered the labour force in larger numbers (contributing to the phenomenon of increasing self-employment, especially amongst women, that we noted earlier). It is for this reason that household incomes have not necessarily declined, but livelihoods have become more vulnerable and – according to Breman's observations in Ahmedabad – living standards have declined. Karin Kapadia, from fieldwork in low income households in Chennai, too, thinks that it is likely that in many of them women have become the main breadwinners – though this coincides with evidence of decline in the status of women in Tamil society<sup>87</sup>. Amongst men affected by labour force changes in all these cities, there has developed a strong sense of their powerlessness and of loss of dignity. Some have responded to their material and identity crises by resorting to criminality, and some to violence. Domestic violence may have increased. But these are not the only or necessarily the dominant responses. Some men have turned rather to clubs, and some of these to social service activities. There are signs, too, of increasing religiosity, and both Gooptu and Breman think that religious ideologies are gaining ground.

### **Conclusion: 'Excluded Labour'?**

The evidence and argument that we have reviewed show that India's 'lopsided transition', with the limited movement of labour out of marginal smallholding agriculture as the economy grew over the first five decades from Independence, has continued through the more recent years of very high rates of growth and in the context of India's partial pursuit of economic liberalism. These years are fairly described as a period of 'jobless growth', in spite of claims based on the apparently contrary evidence for the period 1999-2005. Himanshu sums up: 'The acceleration of GDP growth from an average of six per cent to eight per cent after 2005 has not been accompanied by any corresponding generation of decent

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<sup>84</sup> Jan Breman, 'An informalised labour system', *Economic and Political Weekly* Vol.36, no.52 (2001), pp.4804-4821.

<sup>85</sup> Nandini Gooptu, 'Economic liberalisation, work and democracy: industrial decline and urban politics in Kolkata', *Economic and Political Weekly*, Vol.42, no.25, pp.1922-1933.

<sup>86</sup> Mike Davis, *Planet of slums* (London, Verso, 2006).

<sup>87</sup> Karen Kapadia, 'Liberalisation and transformations in India's informal economy: female breadwinners in working-class households in Chennai', in Barbara Harriss-White and Judith Heyer (eds), *The comparative political economy of development* (London, Routledge, 2010).

employment...(and)...with over 80 per cent of all new jobs created being in casual work, overwhelmingly in construction, there are serious questions about the ability of the growth process to offer sustained employment as the cornerstone of inclusive growth<sup>88</sup>. Perhaps the most critical question, therefore, about labour in India, is that of whether the argument proposed by Sanyal and Bhattacharyya, that a very large share of Indian labour is ‘excluded’ carries weight, or not. What are the prospects for incomes and welfare for those in informal employment?

Both Sanyal and Bhattacharyya, and Tania Li<sup>89</sup>, warn against the easy assumption of the inevitability of the linear pathway of structural transformation – such as appears, for example, in the arguments of the *World Development Report* for 2008 on *Agriculture for Development* – and critique the residual functionalism (as Li puts it) in the idea of the reserve army of labour. They refer to (and Li describes in some detail, from across Asia) the ‘new round of enclosures that have dispossessed large numbers of rural people from the land, and the low absorption of their labour, which is “surplus” to the requirements of capital accumulation’.<sup>90</sup> Of course there are informal activities that are integrated within the circuit of capital, as they may be through sub-contracting and outsourcing, but a great deal of informal activity, which – as we have seen - involves extensive self-employment, constitutes a non-capitalist production space (in Sanyal and Bhattacharyya’s view). This is the economy of surplus or ‘excluded’ labour that does not contribute to capital accumulation.

As Bardhan has pointed out the problem with this argument is that the authors suggest that the non-capitalist space accounts for the great majority of informal workers, when the evidence on the point is scanty. This is a fair criticism, though Bardhan’s own further arguments certainly provide no convincing rebuttal of the idea that there is an extensive force of excluded labour. He refers to data showing that ‘the all-India average market value of fixed assets owned per enterprise was Rs 58,000 in 2005-06 (USD\$1200+) in the informal manufacturing sector’ – but the conclusion that he draws when he says ‘so the average informal enterprise is not run by destitute people’<sup>91</sup> is misleading. The great majority of informal enterprises, after all, are not in the manufacturing sector. Those that are may well include units that have become more capital intensive over time, as Dibyendu Maiti and Kunal Sen report. But these authors also say that ‘whether the informal sector can be a source of robust and productivity driven employment growth in the future, in the face of weak employment growth in the formal manufacturing sector, is a question that remains to be answered’.<sup>92</sup> The further question, of course – posed by Li, Sanyal and Bhattacharyya - is that of just how much informal activity really can be considered to be the site of capital

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<sup>88</sup> Himanshu, ‘Employment trends in India: a re-examination’, pp.58-59.

<sup>89</sup> Tania Li, ‘To make live or let die? Rural dispossession and the protection of surplus populations’, *Antipode*, Vol.41, no.1 (2010), pp.66-93.

<sup>90</sup> *Ibid.*, p.66.

<sup>91</sup> Pranab Bardhan, ‘Notes on the political economy of India’s tortuous transition’, p.34.

<sup>92</sup> Dibyendu Maiti and Kunal Sen, ‘The informal sector in India: a means of exploitation or accumulation?’, *Journal of South Asian Development* Vol.5, no.1 (2010), pp.1-13.

accumulation. Isn't much of it reasonably seen as lying altogether outside the sphere of capital accumulation?

We have no means for mapping the distribution of informal economic activity and employment between that which is firmly within circuits of capital accumulation and that which can be held to be outside them, and the notion of exclusion is, to say the least, tendentious when we do know that garbage pickers, say, often are linked in ultimately to circuits of capital (as when they supply scrap metal for industry). Rather than referring to a large share of the labour force as being outside the sphere of capital accumulation, therefore, it is probably more sensible to think in terms of its being 'excluded' from the dynamic sectors of the economy and engaged in activities of such low productivity as barely to allow for survival. There is no question that India's transition is indeed 'tortuous' and there remains a 'marginal mass' of labour which barely survives without welfare provisioning on the part of the state, now through the Mahatma Gandhi National Rural Employment Guarantee (NREGA) and (it is to be hoped) through enhanced support for food security and more adequate public health. 'Inclusive growth' has remained elusive – and it is in this context, and in part perhaps because of the failure of aspirations to 'inclusive growth', that the Government of India, under pressure from within civil society, has passed social welfare legislation such as NREGA. The persistence of mass poverty in India has become politically unacceptable – whether because of fear of 'les classes dangereuses', as Chatterjee suggests<sup>93</sup>, or because it is an affront in a country that intends to be a major power – and given the failures of inclusive growth the state has had little alternative but to resort to the provision of a social safety net. Schemes such, notably, as NREGA, may deliver important benefits to poor people but they do little to address the problems of human capital formation in India that are the outcome of decades of under-investment in the public sector in education and health<sup>94</sup>, and that help to limit the possibilities for inclusive growth.

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<sup>93</sup> Partha Chatterjee, "Democracy and economic transformation in India", *Economic and Political Weekly*, Vol.43, no.16 (2008), pp.53-62.

<sup>94</sup> John Harriss, 'Have India's economic reforms been "guided by compassion and justice?"', in Sanjay Ruparelia, Sanjay Reddy, John Harriss and Stuart Corbridge (eds), *Understanding India's New Political Economy: A Great Transformation?* (London, Routledge, 2011).