



## CHANGING STRUCTURE OF RURAL ECONOMY OF INDIA IMPLICATIONS FOR EMPLOYMENT AND GROWTH

**Dr.Suryakant Ratan Chaugule**

*Assistant Professor, Department of Commerce, Jalna Education Society's, R.G. Bagdia Arts, S.B. Lakhotia Commerce & R. Bezonji Science College, Jalna-M.S.).*

### **Abstract**

*India is predominantly a rural country with two third populations and 70% workforce residing in rural areas. Rural economy constitutes 46 per cent of national income. Despite the rise of urbanisation more than half of India's population is projected to be rural by 2050. Thus growth and development of rural economy and population is a key to overall growth and inclusive development of the country. Traditionally, agriculture is the prime sector of rural economy and rural employment. The study highlights the profound changes experienced by India's rural economy which have not been reckoned. Contrary to the common perception about predominance of agriculture in rural economy, about two third of rural income is now generated in non agricultural activities. Similarly, it looks amazing to find that more than half of the value added in manufacturing sector in India is contributed by rural areas. However, the impressive growth of non agricultural sector in rural India has not brought significant employment gains or reduction in disparity in worker productivity. This underlines the need for a new approach to direct the transition of rural economy.*

### **Introduction**

India is predominantly a rural country. As per the 2011 Census, 68.8 per cent of country's population and 72.4 per cent of workforce resided in rural areas. However, steady transition to urbanization over the years is leading to the decline in the rural share in population, workforce and GDP of the country. Between 2001 and 2011, India's urban population increased by 31.8 per cent as compared to 12.18 per cent increase in the rural population. Over fifty per cent of the increase in urban population during this period was attributed to the rural-urban migration and re-classification of rural settlements into urban (Pradhan 2013). Population projections indicate that India will continue to be predominantly rural till the year 2050 after which urban population is estimated to overtake rural population.

It is often felt that unplanned rural to urban migration, particularly in search of better economic opportunities, is putting severe pressure on urban amenities and forcing a large number of low wage migrants from rural areas to live in unhygienic and deprived conditions. Thus, to check unplanned migration from rural to urban areas and to improve socio economic conditions of vast majority of population in the country, there is a need to make rural economy stronger and create employment opportunities in rural economic activities. The improvement in economic conditions of rural households is also essential for reducing the disparity in per capita rural and urban income which has remained persistently high. This requires significantly higher growth in rural economy as compared to urban India. Traditionally, agriculture is the prime sector of rural economy and rural employment. The transition in composition of output and occupation from agriculture to more productive non-farm sectors is considered as an important source of economic growth and transformation in rural and total economy. Several scholars have observed that such transition is taking place in Indian economy but at a very slow pace. This paper examines the nature of changes in rural economy and analyses its effect on job creation and occupation structure spanning over a period of the last four decades. An attempt is made to identify the reasons for mismatch in growth in output and employment in various non-farm activities. The findings are used to suggest pro-employment rural growth strategy.

The paper is organized into seven sections. The second section discusses changing contribution of rural areas in India's total output and employment since the year 1970-71. We have also documented the changes in rural-urban distribution of output and employment in various economic activities. The third section provides empirical

evidences on the performance and changing composition of rural output and employment during the past four decades. After 2004-05, the rural areas have witnessed negative growth in employment in spite of high growth in output. The fourth section explores the reasons for growth in jobs not keeping pace with the growth in output. The fifth section dissects the performance of different sectors and explains the asymmetric changes between output and employment. The sixth section examines the disparity in worker productivity between rural and urban areas, between farm and non-farm sectors in rural areas, and between agricultural labours and cultivators in agriculture sector. Conclusions and strategies for pro-employment growth are presented in the last section.

### Contribution of Rural Areas in Indian Economy

The contribution of the rural areas in economy of India for the period 1970-71 to 2011-12 is seen from its share in national output and employment<sup>1</sup> (Table 2.1). The rural areas engaged 84.1 per cent of the total workforce and produced 62.4 per cent of the total net domestic product (NDP) in 1970-71. Subsequently, rural share in the national income declined sharply till 1999-00. Rural share in total employment also witnessed a decline but its pace did not match with the changes in its share in national output or income. The declining contribution of rural areas in national output without a commensurate reduction in its share in employment implies that a major portion of the overall economic growth in the country came from the capital-intensive sectors in urban areas without generating significant employment during the period under consideration. Notwithstanding, the difference between the rural share in output and employment increased from 22 percentage points in 1970-71 to 28 percentage points in 1999-00.

**Table Share of rural areas in total NDP and workforce(Per cent)**

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

After 1999-00, growth rate of rural economy picked up the pace and reached at par with the growth rate of urban economy. This led to stabilization in rural contribution in total NDP at around 48 per cent. The rural share in national NDP dropped slightly during 2004-05 to 2011-12 despite acceleration in growth rate. On the other hand, the rural share in total workforce. The data on rural and urban net domestic product (NDP) is available for the years 1970-71, 1980-81, 1993-94, 1999-00, 2004-05 and 2011-12 at current prices from Central Statistical Office. The information on different aspects of employment in the country was extracted from the unit-level data of quinquennial employment and unemployment surveys conducted by National Sample Survey Office (NSS-EUS). The first quinquennial NSS-EUS was carried out during 1972-73 to assess the volume and structure of employment and unemployment in the country. declined steadily from 76.1 per cent in 1999-00 to 70.9 per cent in 2011-12. Due to faster reduction in the rural share in total employment than in national NDP, difference between the rural share in output and employment narrowed down to 24 per cent by the year 2011-12. These evidences show that urban economy overtook rural economy in terms of output but urban employment is less than half of the rural employment. This has serious implications such as wide disparity in worker productivity between rural and urban areas.

### Rural Share in Output and Employment across Sectors

The sector-wise disaggregation shows significant changes in the contribution of rural areas in the national economy. Besides producing almost all agricultural produce, rural areas contributed around one third of non-farm output and 48.7 per cent of non-farm employment in the country (Table 2.2). The contribution of rural areas in different sectors of non-farm economy revealed large variation and interesting patterns.

**Table. Share of rural areas in total NDP and workforce across different sectors(Per cent)**

Year	Agriculture		Manufacturing		Construction		Services		Non-agri.	
	NDP	Emp.	NDP	Emp.	NDP	Emp.	NDP	Emp.	NDP	Emp.
1970-71	96.2	96.8	25.8	51.5	43.2	64.6	32.8	42.1	32.4	47.3
1980-81	94.9	95.9	31.8	48.1	45.6	58.8	34.0	41.7	35.0	44.9
1993-94	93.9	95.8	29.8	51.3	45.1	57.2	33.6	42.3	34.8	46.6
1999-00	93.2	96.6	41.6	51.5	43.3	57.6	27.1	40.7	31.8	45.8
2004-05	94.1	96.1	42.5	49.6	45.5	64.4	32.7	41.9	36.7	47.2
2011-12	95.1	95.9	51.3	47.4	48.7	74.6	25.9	39.6	35.3	48.7

Note: Emp.: Employment, Non-agri. Includes manufacturing, construction, services and other sectors.

The most striking change in rural share was observed in the case of manufacturing sector. Between 1970-71 and 2011-12, the share of rural areas in output of manufacturing sector doubled and exceeded the manufacturing production in urban areas. Rural areas contributed 51.3 per cent of manufactured output in year 2011-12. However, this sharp increase in the rural share in output did not fetch any increase in rural share in employment in manufacturing sector. On the contrary, rural share in total manufacturing employment in the country declined by 4.1 percentage points during the forty years ending with 2011-12. Clearly, manufacturing sector was shifting to rural areas but without commensurate increase in the employment. In the same period, the share of rural areas in construction sector output increased by 5.5 percentage points, while employment share increased by 10.0 percentage points. In case of Services sector, rural areas lost to urban areas in a big way after 2004-05 and accounted for 25.9 per cent of services output in the country in the year 2011-12. These changes indicate that rural employment has risen at a much faster rate in relatively low paid construction activities.

### Structural Changes in Output and Employment in Rural India

During the four decades from 1970-71 to 2011-12, India's rural economy expanded from Rs. 229 billion to Rs. 34167 billion at current prices and from Rs. 3199 billion to Rs. 21107 billion at 2004-05 prices. In the same period, employment expanded from 191 million to 336 million. Thus, despite almost seven times increase in output in rural India the employment could not even double in a long period of four decades. The growth rates in output and employment show large variations across sectors and over different period, which is very useful in understanding the transition in rural economy in the country. The sector-wise growth rate in NDP and employment during three sub periods viz. 1970-71 to 1993-94 (termed as pre-reform period), 1993-94 to 2004-05 (termed as post-reform period) and 2004-05 to 2011-12 (termed as period of economic acceleration) are presented in Table 3.1 and sectorial composition is presented in

**Table: Growth rates in rural NDP (at 2004-05 prices) and rural employment(per cent)**

Period	Agriculture	Manufacturing	Construction	Services	Non-agriculture	Total
<b>Net Domestic Product (at constant prices)</b>						
1971-94	2.57	5.18	3.94	6.10	5.70	3.72
1994-05	1.87	8.38	7.92	8.55	7.93	5.06
2005-12	4.27	15.87	11.49	3.48	9.21	7.45

### Employment (usual status)

1973-94	1.72	3.55	4.82	4.51	4.22	2.16
1994-05	0.74	2.79	8.32	3.25	3.70	1.45
2005-12	-2.04	0.67	12.09	1.35	3.65	-0.28

The period 1970-71 to 1993-94 witnessed 2.57 per cent annual growth in the NDP of agriculture sector as compared to 5.70 per cent annual growth in non-farm sectors (Table 3.1). As a consequence, the share of agriculture in the rural NDP declined from 72.4 per cent to 57 per cent by the year 1993-94 (Table 3.2). Among

the non-farm sectors, manufacturing, construction and services sectors experienced 5.18, 3.94 and 6.10 per cent annual growth, and their share in rural NDP increased by 2, 2 and 10 percentage points during the pre-reforms period, respectively. During the post-reform period (1993-94 and 2004-05), growth in agricultural sector decelerated to 1.87 per cent, whereas growth rate in non-farm economy accelerated to 7.93 per cent. The effect of slowdown in agriculture on rural economy was offset by significantly higher growth in non-farm sectors, which accelerated growth rate in rural economy to above 5 per cent as compared to 3.72 during the pre-reforms period. These changes further reduced the share of agriculture in rural economy from 57 per cent in 1993-94 to 39 per cent in 2004-05. Thus, rural economy became more non-agricultural than agricultural by the year 2004-05. Among the non-farm sectors, services, manufacturing and construction sectors constituted 37.3, 11.5 and 7.8 per cent share in rural output in 2004-05, respectively

**Table: Sectoral share in NDP and employment in rural areas: 1970 to 2012(Per cent)**

Year	Agriculture	Manufacturing	Construction	Services
<b>Share in rural NDP (at current prices)</b>				
1970-71	72.4	5.9	3.5	17.1
1980-81	64.4	9.2	4.1	20.6
1993-94	57.0	8.2	4.6	26.8
1999-00	51.4	11.1	5.6	28.6
2004-05	38.9	11.5	7.8	37.3
2011-12	39.2	18.4	10.5	27.0
<b>Share in rural employment</b>				
1972-73	85.5	5.3	1.4	7.3
1983	83.6	6.2	1.3	8.8
1993-94	78.4	7.0	2.4	11.4
1999-00	76.3	7.4	3.3	12.5
2004-05	72.6	8.1	4.9	13.9
2011-12	64.1	8.6	10.7	15.5

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

During the period 2004-05 to 2011-12, agriculture sector witnessed revival and registered impressive annual growth rate of 4.27 per cent. Similarly, non-farm sectors growth accelerated to 9.21 per cent. Based on acceleration in growth in agriculture as well as non-farm sectors, this period is termed as the “period of economic acceleration”. Annual growth in the overall rural economy during this period was 7.45 per cent. It is worth pointing that the period 2004-05 to 2011-12 witnessed much higher increase in agricultural prices compared to non-agricultural prices and growth rate in agriculture and non-farm sectors at current prices was almost the same. Therefore, the share of agriculture in rural NDP at current prices did not decline further and stood at marginally higher level of 39.2 per cent in 2011-12 over the year 2004-05.

Within non-farm sectors the growth in services sector output decelerated to 3.48 per cent after 2004-05 as compared to 8.55 per cent growth during the preceding decade. On the other hand, manufacturing and construction sectors witnessed impressive growth of 15.87 and 11.49 per cent, respectively between 2004-05 and 2011-12. Consequently, in these seven years the share of services sector declined from 37.3 to 27.0 per cent whereas the share of manufacturing in rural economy increased from 11.4 to 18.4 per cent and construction sector share increased from 7.8 to 10.5 per cent. Growth pattern in various sectors reveal sizable diversification of the rural economy towards non-farm sectors. From economic development point of view, similar trend and pattern should be reflected in the employment. This was examined from employment data in successive NSS rounds corresponding to the years for which data on rural-urban distribution of national income was available.

A perusal of Table 3.1 shows that rural employment and output followed different growth patterns. Rural employment showed 2.16 per cent annual growth rate during the pre-reform period, which decelerated in the post-



reform period to 1.45% and turned negative (-0.28%) in the period of economic acceleration. The output growth rate in the same sub-periods accelerated.<sup>3</sup> thus, employment increased at a much lower rate compared to output and it even declined in the wake of high growth in output post 2004-05. The main reason for sluggish growth followed by negative growth in rural employment is that non-farm rural sectors could not absorb the labour-force leaving agriculture. The results presented in Table 3.1 also imply that employment elasticity in rural areas declined over time and has reached the negative range after 2004-05. The employment insensitive growth raises serious concerns over the capacity of the rural economy to provide productive jobs to the rising population and workforce moving out of agriculture. Among non-farm sectors, deceleration in employment growth was experienced in manufacturing and services sector; but construction sector witnessed sharp acceleration in employment expansion with the passage of time. During 1972-73 to 1993-94 rural employment increased only by 53 per cent (from 191 million to 293 million) as compared to 132 per cent increase in real rural NDP. Subsequently, during the post-reform period the increase in rural employment was only 17 per cent (293 million in 1993-94 to 343 million in 2004-05) as compared to 72 per cent increase in real rural NDP. The recent period of economic acceleration witnessed a decline in rural workforce by 7 million (from 343 million in 2004-05 to 336 million in 2011-12) despite 65 per cent increase in real rural NDP.

### **Sector-wise Changes in Output and Employment in Rural India:**

#### **Agriculture**

The results presented in the earlier sections show that contribution of agriculture in rural output gradually declined. This is considered a desirable change for the progress in economic development. However, over-dependence on agriculture for employment emerged as a major challenge. Between 2004-05 and 2011-12, India first time witnessed reduction in workforce in agriculture. The rate of decline was 2.04 per cent. Despite this, agriculture employed 64 per cent of the total rural workforce who produced only 39 per cent of the total rural output during the year 2011-12. It is estimated that for bringing convergence between the share of agriculture in total output and employment, 84 million agricultural workers were required to be shifted to non-farm sectors in rural areas in the year 2011-12. This amounted to almost 70 per cent increase in non-farm employment, which looks quite challenging.

#### **Manufacturing**

Manufacturing output in rural areas registered annual growth rate of 5.18 per cent between 1970-71 and 1993-94. The post-reform period (1993-94 to 2004-05) witnessed higher growth rate of 8.38 per cent, which further accelerated sharply to 15.87 per cent during 2004-05 to 2011-12 (Table 3.1). Significantly higher growth in manufacturing compared to other sectors raised its share in rural NDP from 5.9 per cent in 1970-71 to 18.4 per cent in 2011-12 (Table 3.2) pointing to a clear trend towards industrialization in rural areas. However, the signs of industrialization in rural areas were not visible through the changes in employment structure. Between 1972-73 and 1993-94, manufacturing sector added 10.29 million jobs (29% of incremental non-farm jobs) and its share in total rural employment increased from 5.3 per cent in 1972-73 to 7.0 per cent in 1993-94.

During the next decade (reforms period) the sector added 7 million jobs (23.4% of incremental non-farm jobs) and its share in total rural employment increased only by 1 percentage point to 8.1 per cent in 2004-05. During the recent period between 2004-05 and 2011-12, employment in the manufacturing sector increased merely by 1.2 million jobs (4.9% share in incremental non-farm jobs). Growth rate in manufacturing employment slowed down from 3.55 per cent in first period to 2.79 per cent in the second period and to 0.65 per cent in the third period. Further reveal that rural areas contributed 58 per cent of the incremental manufacturing sector output in the country as compared to only 25 per cent share in incremental employment (5.3 million) between 2004-05 and 2011-12. This leads to the inference that manufacturing sector in rural areas used more capital-intensive production technology as compared to the urban areas after 2004-05. As the new industry in rural areas relied much more on capital than labour, it failed to address the goal of employment generation for rural labour-force.

**Table: Sub-Sector Wise Changes In Employment (Usual Status) In Manufacturing And Services Sectors**

Sub-sectors	Employment:		Compound growth rate (%)	Share in total employment (%)	
	usual status (million)			2004-05	2011-12
	2004-05	2011-12	2004-05		
Wearing apparel	3.4	4.2	2.9	12.3	14.5
Tobacco products	3.4	3.6	0.8	12.3	12.5
Textile	4.5	3.6	-3.2	16.0	12.3
Non-metallic mineral products	3.4	3.6	0.8	12.3	12.5
Food products and Beverages	3.4	3.4	0.0	12.3	11.8
Machinery, metal products and transport equipment	2.1	3.0	5.7	7.4	10.4
Wood and wood products	4.1	2.8	-5.4	14.8	9.6
Furniture	1.7	1.5	-2.1	6.2	5.1
Chemical products	0.7	0.6	-2.6	2.5	2.0
Rubber and plastic products	0.3	0.4	1.1	1.2	1.3
Paper and printing, etc.	0.3	0.3	-0.3	1.2	1.2
Leather and related products	0.3	0.3	-1.8	1.2	1.0
Others	0.0	1.7	-	0.0	5.8
<b>Manufacturing sector- Sub total</b>	<b>27.6</b>	<b>29.0</b>	<b>0.67</b>	<b>100</b>	<b>100</b>
Wholesale and retail trade; repair of motor vehicles	18.5	18.8	0.3	38.9	36.0
Transport, storage and Communication	8.6	10.0	2.3	18.0	19.2
Education	5.5	7.0	3.4	11.5	13.3
Hotel and restaurants	2.4	2.9	2.9	5.0	5.6
Public administration, defence and compulsory social security	2.7	2.7	-0.5	5.8	5.1
Health and social work	1.4	1.6	2.0	2.9	3.0
Financial intermediation	0.7	1.1	7.1	1.4	2.1
Others	7.8	8.2	0.7	16.4	15.7
<b>Services sector: Sub-total</b>	<b>47.6</b>	<b>52.3</b>	<b>1.4</b>	<b>100.0</b>	<b>100.0</b>

Within the manufacturing sector, wearing apparel, tobacco products, textile, non-metallic mineral products, and food products and beverages are the major employment generating sub-sectors. Most of these sub-sectors witnessed either stagnation or fall in employment between 2004-05 and 2011-12. The lack of skills and technical knowledge appear to be the main barrier for rural workers to enter manufacturing sector. The NSS surveys show a depressing picture of the level of education and technical skills possessed by the rural workers. More than three-fourth of the total rural workforce of 15-59 years were not qualified even up to secondary level in year 2011-12 (Table 5.2). Further, only 1.3 per cent of the rural workforce of the age group 15-59 years possessed technical education<sup>8</sup>. Similarly, only 14.6 per cent of the rural workforce of age group 15-59 years received vocational trainings<sup>9</sup>, which aim to develop competencies (knowledge, skills and attitude) of skilled or semi-skilled workers in various trades. Gender-wise disaggregation reveals that female workers possess relatively low level of education and technical training as compared to male counterparts. These facts suggest that setting up of industries and improvement in infrastructure are not sufficient conditions for increasing employment in rural areas. Improvement in industrial infrastructure in rural areas must be accompanied by the

effective human resources development programmes to impart necessary skills and training to rural youth to match the job requirement in manufacturing sector.

**Table: Education level (general and technical) of usually employed rural workers of age 15-59 years(per cent)**

Per cent of rural workers	Male		Female		Persons	
	2004-05	2011-12	2004-05	2011-12	2004-05	2011-12
	Secondary education & Above	19.7	27.1	6.8	11.8	14.9
With technical education	1.7	1.6	0.7	0.7	1.3	1.3
With vocational training	14.2	15.4	13.0	12.7	13.8	14.6

Source: Authors estimation based on unit-level NSS data on employment and unemployment survey

### Services Sector

Services sector was found to be the second largest contributor of output and employment in rural areas (Table 3.2). The sector contributed about 27.0 per cent of the total rural output and engaged 15.5 per cent of the rural workforce in the year 2011-12. According to NAS, services sector registered 5.94 and 6.10 per cent annual growth in its real NDP during the pre-reform period in urban and rural areas, respectively. The growth accelerated to 8.94 and 8.55 per cent, respectively during the post-reform period. During the recent period between 2004-05 and 2011-12, urban areas maintained growth in services sector output at 8.42 per cent, but in rural areas it dropped to 3.48 per cent. Services sector has played a major role in structural transformation of Indian economy but its achievements during the recent years were mainly concentrated towards urban areas.

Wholesale and retail trade and repair of motor vehicles constituted 27 per cent share in total service sector NDP in 1993-94 which increased to 37 per cent in 2004-05 on account of impressive annual growth of 11.7 per cent in this sub-sector. This along with the remarkable growth in other sub-sectors such as hotel and restaurants, transport, storage and communication, and financial services, resulted in 8.5 per cent annual growth in overall services sector in rural areas between 1993-94 and 2004-05. Trade, and hotel and restaurants activities declined by 4.8 per cent and 2.5 per cent per year, respectively. Although the reduction in output of these sectors was offset by the significant growth in financial services, transport, storage and communication, and public administration and social security activities, the growth in overall services sector output decelerated to 3.4 per cent per annum.

One of the reasons for the decline in output of some services in rural areas could be the shift in the shopping behaviour of the rural households towards urban centres. Improved road connectivity and transport and rise in ownership of private vehicles facilitated frequent visits to nearby urban localities for shopping and other requirements. Although consumer gets wider choices in urban localities, this adversely affected trade and other businesses in rural areas. The slow-down in output of services sector after 2004-05 caused deceleration in employment growth. The employment in services sector increased only by 1.35 per cent per year between 2004-05 and 2011-12 as compared to growth rate of 3.25 per cent during the previous period (Table 3.1). The services sectors, which offer relatively decent and comfortable jobs, constituted merely 15 per cent share in 27 million new jobs created in non-farm sectors between 2004-05 and 2011-12. As in the case of output, wholesale and retail trade including repair services for motor vehicles was the largest sub-sector and constituted 36.0 per cent share in employment in all services in 2011-12 (Table 5.1). But this sub-sector witnessed stagnation in job creation between 2004-05 and 2011-12, resulting in deceleration in overall services sector employment. Notwithstanding, other sub-sectors such as financial services, hotels and restaurants, education, and transport, storage and communication services gained momentum in creating employment in rural areas during the recent period. Two



sub-sectors namely education and transport, storage and communication constituted 62 per cent of the about 5 million jobs created in services sector in the rural areas between 2004-05 and 2011-12.

### Construction

Rural areas are characterized by poor infrastructure and civic amenities. Similarly, a large per cent of houses are in need of upgradation. These facts indicate considerable scope for growth of construction sector in rural areas. The real NDP of construction sector increased at the annual rate of 3.94 per cent between 1970-71 and 1993-94. During the successive periods, 1993-94 to 2004-05 and 2004-05 to 2011-12, growth rate in construction sector output accelerated to 7.92 per cent and 11.49 per cent, respectively (Table 3.1). Consequently, the share of construction sector in rural output increased from 3.5 per cent in 1970-71 to 10.5 per cent in 2011-12. Employment in construction sector increased 13 times during the past four decades, leading to a significant increase in its share in total rural employment from 1.4 per cent in 1972-73 to 10.7 per cent in 2011-12. It is interesting to note that this sector absorbed 74 per cent of the new jobs created in non-farm sectors in rural areas. These trends indicate that rural areas witnessed a construction boom after 2004-05, which is desirable in terms of creation of necessary infrastructure for the economic development. Further, growth in employment in construction sector was higher than output growth during both the periods under consideration. One of the reasons for the much higher growth in rural workers in construction over manufacturing or services sectors is fewer requirements of skills and education in construction activities.

### Conclusions

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

The higher dependency on rural areas for employment is a major reason for low level of per worker income. Temporally, contribution of rural areas in total output and employment registered striking changes across different sectors. The production base of manufacturing sector shifted to rural areas significantly, but without a commensurate increase in rural employment during the past forty years preceding 2011-12. The services sector lost heavily to urban areas both in terms of output and employment. It was only the construction sector where rural share in both output and employment improved and employment grew at a faster rate as compared to output. Although construction activities improve rural infrastructure and have a multiplier effect on the economy, proportionately less output growth than the employment indicates a limited productive employment generation capacity in this sector.

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