

## Employment Structure and Urbanisation: Changing Patterns in India

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### Abstract

This paper is a study to look at changing patterns of urbanisation and employment structure and their linkages, if any. By and large Indian society has always been a rural one; however, a process of rapid urbanisation is taking place. Comparing the level of urbanisation in India with the World level, we find it is nearly half of it. However, annual growth in urban population in India at 3.76 % p.a. is higher than world-wide annual growth rate of 1.91% p.a. The employment structure of India is leaned towards service sector, however the findings of paper suggests that service sector has very low employment elasticity during the analytical period whereas the secondary sector has higher employment elasticity as compare to the primary and tertiary sectors. Hence, the investment in secondary sector has potential to address the employment challenges of the country.

**Keywords-** Urbanisation, Employment, Structural Changes, Elasticity of Employment, Sectoral Growth.

### Introduction

India has often been characterised as a developing but pre-dominant agrarian economy which has been going through some structural changes in more than last two decades. Besides some exogenously imposed structural transformation there are some internal as well as interconnected transformations which the Indian economy is continuously going through. In early planning periods Indian policy makers adopted an import-substituting heavy industry lead development path which was supposed to boost up the growth process first and later on benefit the marginalised section of the society through its trickling down effects. However, the model did not prove to be as much success as it was supposed to be neither in terms of higher growth (remember the prolonged Hindu rate of growth) nor in dealing with the upgrading the lives of economically weak and marginalised people.

Agriculture, on the other hand, has always been a vulnerable sector which managed to produce enough food grains only after the commencement of the Green-revolution. The beginning of the 1980's saw widespread gloom in India's macroeconomic performance after the emergency was officially declared over in 1977. However, during the period from 1980-90 the economy began to pick up and the rate of growth increased to 5.8 per cent and was exceeded by only eight out of 113 countries. Only after the growth accelerated in the 1980s, was there a significant downward trend in poverty.

Due to growing imbalances in balance of payments and fiscal deficits India has to adopt the Structural Adjustment Programmes in early 1990's. Under new policy regime, India's growth saw some accelerated momentum and sometimes it approached towards double digit, however the growth didn't turn employment generating. While India still struggling with the development issues like higher growth and income disparity, poverty, illiteracy, health, capability, rights, so on and so forth; some demographical transformations have emerged robustly, which is in the form of urbanisation. **McKinsy**

**Global Institute Report 2010** (McKinsey Global Institute, 2010.), forecasts that in the year 2030, 40% of India population will be urbanised and 68 cities will have population of one million plus. 70% of net new employment will be generated in cities which will produce more than 70% of Indian GDP and 91 million urban households will be middle class. Clearly, India's future economic growth is likely to be centralized towards cities and planning for infrastructural requirements of urban settlements.

The report of High powered Expert committee on Urbanisation (Committee, 2011) asserts that India is urbanizing and cities and towns are at the centre of India's trajectory. In the coming decades, the urban sector will play a critical role in the structural transformation of the Indian economy and in sustaining the high rates of economic growth. No doubt, India's urbanisation is in transition period and is likely to be in central discussion among economists.

### **Objective**

The objective of the study is to look at changing patterns of urbanisation and employment structure and their linkages, if any.

### **Statement of Problem**

Though primary activities contribute in both rural and urban economy, reducing trends of share of primary sector in GDP goes hand in hand with decrease in percentage share of rural population and hence increase in share of urban population in India. Primary sector mainly includes agriculture and allied activities. With the development of economy the employment structure has become non-favourable towards primary sector in both rural and urban areas in India. But does it favour to industry at all, as advocated by **W. Arthur Lewis**?

### **Literature Review**

**W. Arthur Lewis** who gave the idea of disguised unemployment or under-employment in rural agricultural economy and **Prebisch and Singer** who coined the idea of long term tendency for the terms of trade against primary goods, may be considered as first two adherent of mobilisation of labour primary sector to industrial sector and henceforth cause urbanisation. Existence of agricultural product surplus and its use in trade leads to urbanisation<sup>1</sup>. Globally there are evidences that urbanisation promotes uneven division of labour and economic resources within and between cities<sup>2</sup>. In recent times, several western economists have written about inter-relationship between urbanisation and economic development. According to **G.S. Tolley**, there is a close relation between urbanisation and economic development and it is evident from experience in most countries that have undergone development. The degree to which a country succeeds in fostering growth of urban productivity is likely to be the major determinant of its urbanisation. **Jo Beall** (Jo Beall, 2008.), has focused his studies on migration led urbanisation specially in south and east Asian countries. For poor people, the move to the city can be a catalyst for increased wealth and opportunity, or can trap them into a life of poverty and insecurity. In India also many of economists and their studies see rapid urbanisation in India in last few decades and consider it to be accelerating in coming decades. According to them urbanisation will lead in fast

<sup>1</sup> Agricultural Surplus, Division of Labour and the Emergence of Cities; A Spatial General Equilibrium Model

<sup>2</sup> Jauhianen, S. J. Urbanisation, Capital and Land Use in Cities,

economic growth and will subsequently generate more employment opportunities and will reduce the poverty. **Massimiliano Cali (2009)** explores three important aspects of the urbanisation process in India: rural-urban disparities and their relation with economic development; the relation between urbanisation and growth; and the convergence hypothesis in cities' growth. The findings of his study support the idea of a U-shaped relationship between rural-urban disparities in socio-economic indicators and the level of economic development. The study also finds that while levels of urbanisation and economic development go hand in hand across Indian states over time, the relationship is not as strong as first anticipated. Moreover, the rate of urbanisation and that of growth appear to be negatively correlated.

### **Methodology**

The study will mainly be based upon secondary data. Secondary data will be taken from publication of various organisations Reserve bank of India, Office of registrar General, etc. Various round NSSO data has also been looked at to find some employment related estimation.

### **Structural Changes: Introspection**

#### **India's Trend of Urbanization:**

Considering the economic development as a process of structural transformation, one can easily argue that with the development of an economy, share of rural population decreases in total population of the country and rural economy transforms into an urban one. The census data shows that 82% p.a. of total population was rural in India in 1961 which has declined to 68.84 % p.a. in 2011. In each phase of history, urbanisation in India had a typical pattern suited to the then obtaining conditions. Originally, cities were associated with the collection and distribution of agricultural surplus. Later on, social and political controls must have developed, with urban growth promoting manufacturing, trading, educational and other activities with which further urban growth might also have been associated. Large number of small towns with manufacturing, trading, administrative, educational and cultural activities existed along the communication routes and coastal areas in medieval age. This pattern continued with some modifications here and there, till the arrival of the Britishers in India.

In British period, Indian urban centers developed into modern metropolitan cities. The cities and the development processes were oriented to the needs of colonial rule (Koparolakar, 1986), however, it was this period only when Indian cities started to be mega cities and the same pattern continues today. According to Ashish Bose, the character of the present day Indian metropolis, born and nurtured as a tool for foreign colonial exploitation, has continued to retain, despite political independence. He further observed that until 1970s, no historian got interested in studying the role of urbanisation in the economic development in India. Ever since the first regular census was taken in 1881, almost all census reports have commented on urban growth but these discussions are mostly descriptive and lack historical depth and statistical rigour. Studying urbanisation in India as revealed in census reports, we find that a number of factors were mentioned to explain the slow growth of urban population during 1901 – 1951 such as race, rainfall, plague, attachment to village life etc. while famines and the presence of pilgrims were also mentioned as factors which by artificially inflating urban population in the initial census year, gave the impression of slow urbanisation in the following years. The Second World War and the partition of India in 1947 were mainly responsible for a sudden spurt in urban growth during the decades 1931-41 and

1941-51. The annual exponential growth rate was very high at 3.5% per year during forties which had prompted several scholars propound the thesis of urban explosion stipulating that urban centres are growing beyond their capacity. The rate came down substantially during fifties and sixties but was attributed to the adoption of a rigorous definition of urban centres in census 1961. In seventies, however, the country recorded an all time high growth of 3.8 % p.a. due to emergence of a large number of new towns. The 1951-61 decade was marked by rapid strides in industrialization and it was generally expected that urbanisation too would be rapid during this decade but 1961 census data do not give any evidence of accelerating urbanisation.

There has been a striking change in the urban scenario in the country since the eighties reflected in deceleration in urban growth. The annual growth rate of population recorded for urban India was as low as 3.1% p.a. during 1981-91, which again gone down to 2.7 % p.a. during 1991-2001 however, during 2001-11 the annual growth rate of urban population has risen to 3.76% p.a.. Commenting on this Kinsley Davis quoted that “urbanisation may be a sign; though not an absolute proof that economic growth has accelerated”. By and large Indian society has always been a rural one; however, a process of rapid urbanisation is before us. According to 2011 census, India’s urban population has reached to 377.1 million in 2011 from 79 million in 1961. In percentage terms, it has grown from 18.0% in 1961 to 31.61% in 2011. Comparing the level of urbanisation in India with the World level, we find it is nearly half of it. However, annual growth in urban population in India at 3.76 % p.a. is higher than world-wide annual growth rate of 1.91% p.a. Moreover, in last decade it has seen a rising trend in India.

**Table-1: Growth of Indian Urban Population after Independence**

Year	Total population (thousands)	Urban population (thousands)	Percentage urban	Urban annual growth rate	Annual rate of change of percentage urban
1950	371857	63 373	17	2.36	0.62
1955	405529	71 301	17.6	2.29	0.39
1960	445981	79 938	17.9	2.98	0.94
1965	493868	92 773	18.8	3.14	1.01
1970	549312	108 546	19.8	3.75	1.53
1975	613767	130 927	21.3	3.89	1.59
1980	688575	159 046	23.1	3.32	1.05
1985	771121	187 754	24.3	3.15	0.96
1990	860195	219 758	25.5	2.88	0.8
1995	954282	253 774	26.6	2.63	0.79
2000	1 046 235	289 438	27.7	2.35	0.73
2005	1 134 403	325 563	28.7	2.39	0.93
2010	1 220 182	366 858	30.1	2.5	1.19

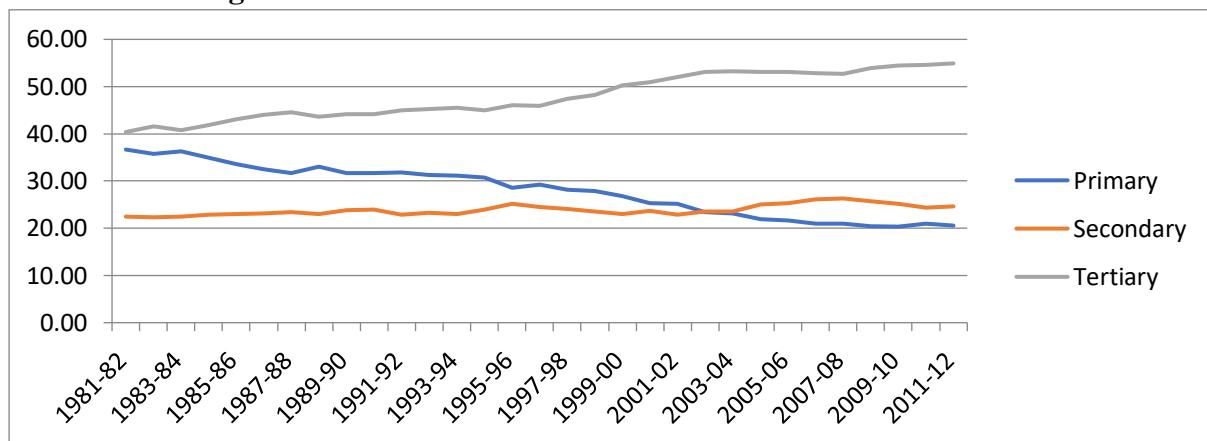
Source: World Population Prospects: The 2006 Revision and World Urbanization Prospects: The 2009 Revision.

In India it is a modest rate of urbanization with extended growth in areas beyond town limits, and continuous development of town and its environ. However, urban population residing in large cities (Class-I including metros) has increased in India significantly in last three decades (The South Meet on Urban Crisis and Town Planning at Crossroads, 2007). In India out of the total population of 1027 million, in 2001, about 285 million persons lived in urban areas (India, 2011). At the country level, natural increase has been principal source of urban population growth.

### **Employment Structure in India**

Indian economy has always been pre-dominated by primary activities which consists agricultural and mining activities. Primary sector which consists of agriculture and mining activities has dropped its share in economy. In 1981, it has contributed 36.67% in total GDP and declined continuously since then, the share declined to 31.86% in 1991-92 and further declined to 25.31% in 2000-01 and 20.52% in the financial year 2011-12. This decline in the primary sectors share in overall GDP has not constituted in the growth of secondary sector which more or less remained same in the same period.

**Figure.1: Trend Lines of Share of Different Sectors in Over-all GDP**



Source: Economic Survey 2014-15

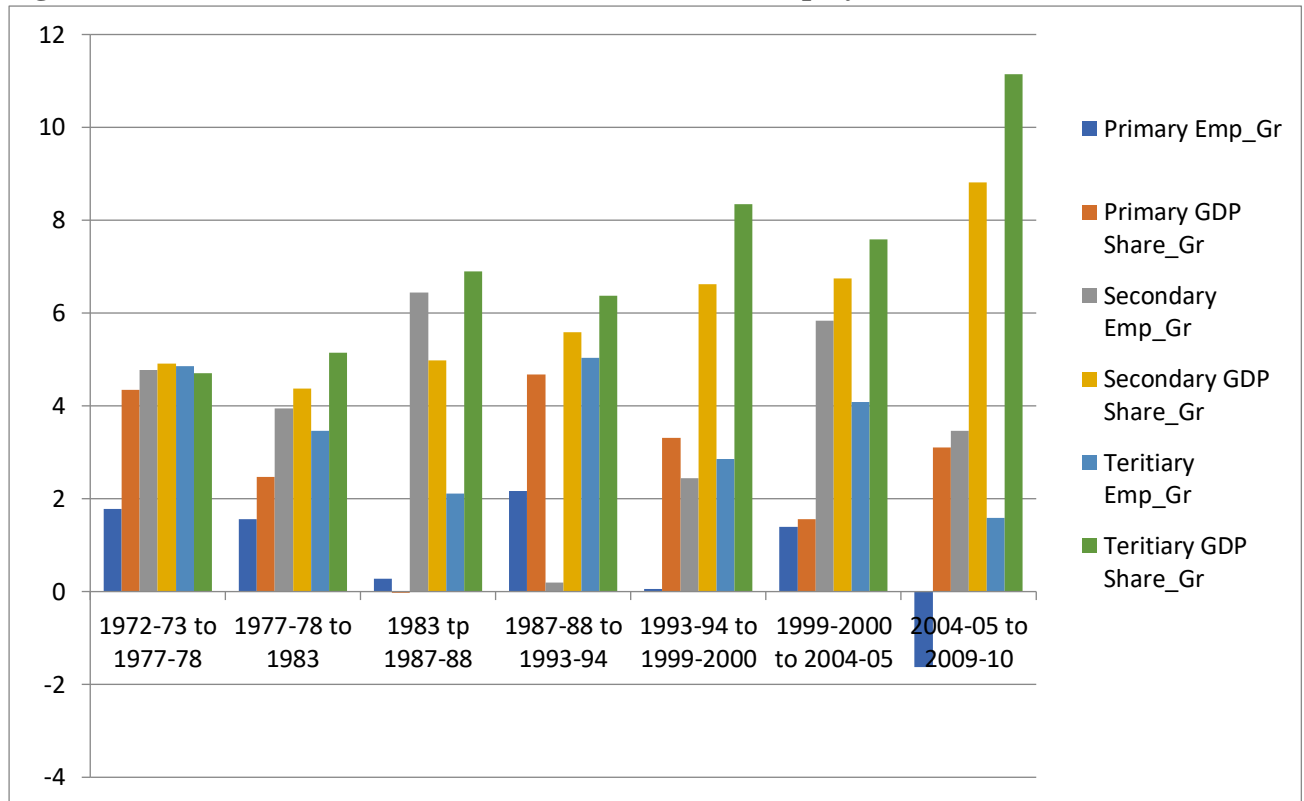
The share of secondary share was 22.53% in overall GDP in the year 1981-82, it show very less fluctuation in last 30-35 years. In 1991-92 it was 22.93% of GDP and in 2011-12 it was at 24.57% level only.

Tertiary sector on the other hand has been major contribution in the over-all GDP of the Indian Economy. Though, its share was only a little bit more than that of agriculture in the year 1981-82 but in the year 2011-12 it was more than two and a half times of share of agriculture in GDP. In 1981-82 share of agriculture was 36.67% and share of services was 40.39% in over-all GDP, but the same were 20.52% and 54.91% respectively.

The main reason of increased share of service sector in over-all GDP is obviously the higher growth rate in service sector from last three decades as compared to other two sectors. Between 1972-73 and 1977-78, all the three sectors have almost equal growth rate, however in subsequent NSSO round data, it is found that tertiary sector has seen a good growth rate and during 2004-05 to 2009-10 it was recorded in double digit and was 11.15% p.a., whereas, primary sector has been declining during 1983 to 1987-88,

it has been negative growth rate in this period. However in subsequent round data, it has been more volatile and during 2004-05 to 2009-10 it saw 3.1 % p.a. growth.

**Figure.2: Growth in GDP Share and Employment in Different Sectors**



Source: Calculated from various NSSO rounds.

Employment growth in the secondary sector, consisting of mining, manufacturing, electricity, water and gas, and construction, has been relatively high, in fact the highest among the three sectors, during the period under study, 1972-73 to 2009-10. It has declined over the longer period with some fluctuations over the shorter periods, but has shown a significant increase during 1994-2005. Even during 2004-05/2009-10, when overall employment has virtually stagnated, it has grown at around 3.5 per cent in the secondary sector. Employment growth in the tertiary or services sector has also been relatively high but has consistently declined over the three periods of 10 years each since 1972-73. Growth of employment in the primary sector, as expected, has been the lowest and seen the sharpest decline. It has, in fact, turned negative in recent years.

The employability of all the three sectors has indeed decline drastically over the last three decades. During 1972-73 to 1977-78 period, when the growth in all these three sectors were more or less same at around 4.5% p.a., the tertiary sector had highest employment elasticity and it was 1.03 which meant that one percent p.a. growth in tertiary sector was bringing 1.03% p.a. growth in the employment in the same sector. In the same period the employment elasticity of primary and secondary sectors were 0.41 and 0.97 respectively.

Slow and declining growth of employment in primary sector is a result of both slow and declining rate of growth in agriculture and a decline in employment elasticity of this sector. In the secondary sector, a high employment growth despite moderate rates of growth in this sector has been possible due



to relatively high and rising employment elasticity. But in the tertiary sector, even a high GDP growth has not been able to maintain a high growth in employment due to a steep decline in employment elasticity.

**Table.2: Growth and Employment Elasticity of Different Sectors**

Period	Primary			Secondary			Tertiary		
	Emp_ Gr	Sec_ Grw	Emp - Elast	Emp - Gr	Sec_ Grw	Emp - Elast	Emp - Gr	Sec_ Grw	Emp - Elast
1972-73 to 1977-78	1.78	4.34	0.41	4.78	4.91	0.97	4.86	4.70	1.03
1977-78 to 1983	1.56	2.47	0.63	3.95	4.38	0.90	3.46	5.15	0.67
1983 tp 1987-88	0.28	-0.03	-9.33	6.44	4.98	1.29	2.11	6.90	0.31
1987-88 to 1993-94	2.16	4.67	0.46	0.19	5.59	0.03	5.03	6.37	0.79
1993-94 to 1999-2000	0.05	3.31	0.02	2.44	6.62	0.37	2.85	8.35	0.34
1999-2000 to 2004-05	1.40	1.56	0.90	5.83	6.74	0.86	4.08	7.58	0.54
2004-05 to 2009-10	-1.63	3.10	-0.53	3.46	8.82	0.39	1.59	11.15	0.14

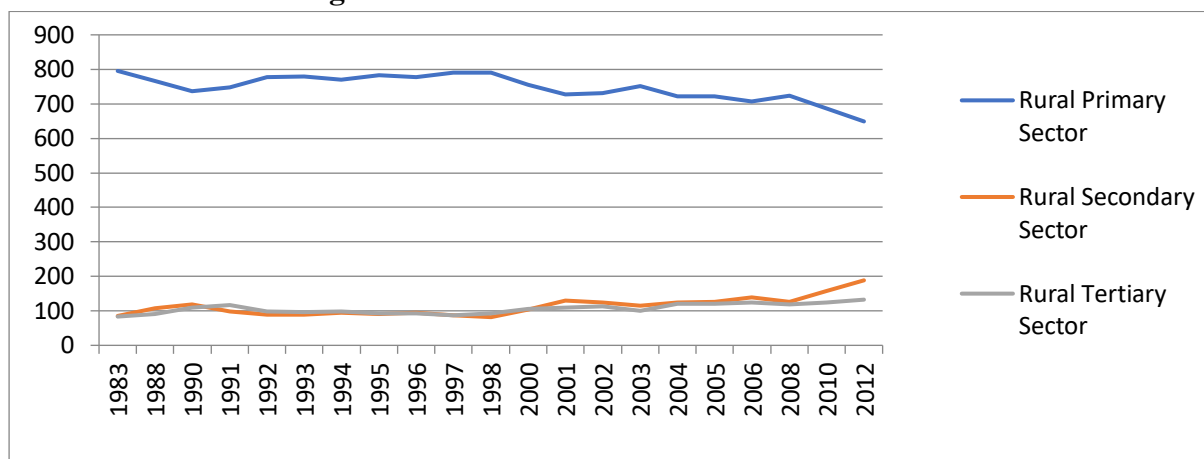
Source: Calculated from various NSSO rounds.

Subsequent periods of NSSO rounds data show that employment elasticity of primary sector moved in opposite direction of growth in this sector. Growth rate and employment elasticity of primary sector has shown much volatility than any other two sectors. The employment elasticity of primary sector turned negative during 1983 to 1987-88 period and as low as 0.02 during 1993-94 to 1999-2000 period when growth in this sector was 3.3.1 %. During next period when the growth in this sector dipped to 1.56 % p.a.the employment elasticity recorded its highest level at 0.90 and in very next period of 2004-05 to 2009-10 when growth of primary sector resumed to 3.10 % p.a. The elasticity of employment turned again negative. In case of tertiary sector the employment elasticity has shown a declining trend with increasing growth rate of this sector.

Though the growth rate of tertiary sector has grown to 11.15% p.a during 2004-05 to 2009-10, the employment elasticity has decreased to 0.14 in the same period. The secondary sector which comprises manufacturing and construction activities has recorded moderate growth during all available periods data also has relatively higher employment elasticity as compared with other two sectors. Clearly primary and tertiary sectors have become less employable in comparison to the secondary sector.

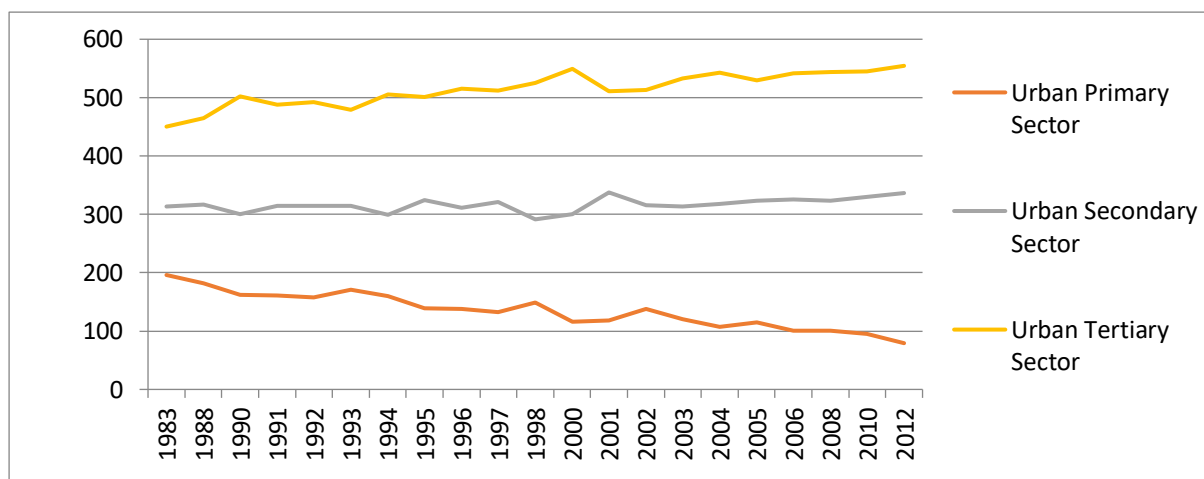
#### **The evidences of mobility of labour in other sectors:**

The distribution of work force in different sectors shows that the number of per thousand persons working in rural primary sector has decreased from 796 in 1983 to 649 in 2012. Similarly, in urban primary sector, it again decreased from 196 in 1983 to 79 in 2012. Per thousand workers working in secondary activities in rural areas was 85 in 1983 which grew to 188 in 2012.

**Figure.3A: Distribution of Work Force in Rural Area**

Source: Reserve Bank of India.

However, in urban area it recorded a slight increase from 314 in 1983 to 336 in 2012. As far as tertiary sector is concerned, in rural areas the number of per thousand working persons was 83 in 1983 and it again rose to 133 in 2012. In urban sector the number were 450 and 554 in 1983 and 2012 respectively.

**Figure.3B: Distribution of Work Force in Urban Area**

Source: Reserve Bank of India.

Above statistics show the mobilization of workforce from primary to other two sectors in both rural and urban areas. However, the trend was more visible in urban areas due to obvious reason that with process of urbanization the primary activities also diminish. In rural area, the mobilization of work force from primary sector is more in secondary sector than tertiary sector, whereas, in urban area, it is more in tertiary sector than in secondary sector.

### CONCLUSION

- Share of primary sector in GDP decreased to its half level during 1981 to 2011-12. However, share of tertiary sector has increased significantly.
- Employment elasticity of primary and tertiary both sector has come to very low level in last few years despite the double digit growth in tertiary sector.
- Work force mobilization is deviating in different sectors in both rural and urban area which leaves a possibility of mobilizing the work force in secondary sector which has moderate employment elasticity.



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