# BLOCK 3
# GROWTH AND DISTRIBUTION

# BLOCK INTRODUCTION

**Block 3: Growth and Distribution**

**Block 3** of this course is on 'Growth and Distribution'. This block has three units. The units are devoted to the themes of poverty, inequality and employment & unemployment.

**Unit 8** is on '**Poverty**'. The unit begins by outlining the growth in population over the decades. It then explains the linkage of poverty to the factors of nutrition, credit, insurance, informal economy and discrimination. Various poverty alleviation initiatives taken during the period of 1947-2010 is then discussed. The more recent measures on tackling poverty during the decade of 2010s is outlined.

**Unit 9** is on '**Inequality**'. The unit defines 'inequality' in terms of horizontal inequality and vertical inequality. It then explains inequality in terms of its income, consumption and nutritional dimensions. The concept of 'regional inequality' is outlined in terms of 'standard of living' and 'sectoral divergence'.

**Unit 10** is on '**Employment and Unemployment**'. The unit begins with a conceptual outline of employment, unemployment, labour force participation rate and work force participation rate. The various employment policies pursued in India are then discussed. The large informal base of the economy and the initiatives taken to meet the social security needs of the large unorganised sector workforce is then explained in the unit.

# UNIT 8   POVERTY[*]

**Structure**

## 8.0   OBJECTIVES

After reading this unit, you will be able to:

- define the concepts of poverty and poverty line;

- discuss the methods of measurement of poverty;

- explain the approach adopted in India to measure poverty;

- analyse the linkage of poverty with factors influencing its alleviation;

- describe the important measures initiated to alleviate poverty in India up to 2010; and

- outline the recent measures initiated to combat poverty in India during the post-2010 years.

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[*] Dr. Smritikana Ghosh, Asst. Professor, Scottish College, Kolkata.

## 8.1 INTRODUCTION

In the year 2015, as per a WHO estimate, the world had 872 million people below the poverty line out of which 180 million were living in India. This makes the percentage of people living below the poverty line in India close to 21 percent. Poverty is epidemic dearth. It is the state of a person lacking a 'minimum' amount of material possessions or money. Poverty may be absolute or relative. Absolute poverty refers to the lack of means necessary to meet the basic needs such as food, clothing and shelter. Relative poverty takes into consideration the individual's social and economic status compared to the rest of society. Considered in the relative sense it is a multifaceted concept. In view of this, any measure of poverty based only on income cannot capture all its dimensions. In other words, in addition to having basic measures of poverty, we also need to have a multidimensional concept of poverty. In India, poverty estimates have been developed based on the concept of poverty line by two methods: one keeping the income required to purchase the basic necessities in view (income approach) and the other by taking into account the actual consumption made by families (consumption approach). Poverty line reflects a minimum living standard which should be assured to every individual. Those falling below this level are counted as people living in poverty. In the income approach, it is stated as the number of rupees required per day for purchasing the basic necessities.

## 8.2 MEASUREMENT OF POVERTY

There are different measures of poverty. In this section, we shall study some of the important methods of poverty measurement.

### 8.2.1 Methods of Measurement

We begin with the head count ratio, which, while being simple to compute, and hence widely used, does not help us to know the relative intensity of poverty between two comparing groups. A measure called the 'poverty gap ratio' gives us an idea of intensity of poverty between two regions or groups. However this latter method too does not provide a measure of the severity of poverty. This lacuna is removed by the method of 'squared poverty gap ratio'. In this section, besides familiarising ourselves with these measures of poverty, we shall learn about two more measures, one developed by Harold Watts (1964) and the other by Amartya Sen (1976) both of which are known for satisfying theoretical properties.

**Head Count Ratio (H):** This is defined as the percentage of the total population that is poor i.e. it is defined as $H = \frac{q}{n}$ where $q$ is the number of poor people and $n$ is the total population. For instance, if there are 1000 people in a region among whom 430 are poor (as per a pre-defined poverty line), then H = 430/1000 = 0.43. Thus, expressed as a percentage, this means 43 percent of people in the region are poor. In this measure, while the proportion of people below the poverty line can be known, we cannot know the extent (or the intensity) of poverty i.e. how much poor these 430 persons are, cannot be determined.

**Poverty Gap Index (PGI):** For studying the intensity of poverty, estimation of poverty gap ratio is useful. This tells us the extent to which individuals, on average, fall below a poverty line. It is thus an indicator that tells us how far the

extremely poor fall below the poverty line. Defined as the mean distance below the poverty line, it reflects both the depth and the incidence of poverty. The PGI considers persons who are non-poor to have 'zero' poverty gap. Aggregated over a group of individuals surveyed, the poverty gap ratio becomes a poverty gap index (PGI). Thus, if $Y_i$ is the income of an individual 'i', and the poverty line is taken as Z, then PGI is defined as:

$$PGI = \frac{1}{N} \sum_{i=1}^{J} \left( \frac{Z - Y_i}{Z} \right) \tag{8.1}$$

where N is the total population surveyed. Thus, if there are 100 people (N) among whom 40 are poor with their respective income denoted by $Y_1$, $Y_2$, $Y_{3,......}$, $Y_{40}$ and Rs 1000 is taken as the poverty line, then PGI is calculated as:

$$PGI = \frac{1}{100} \left[ \left( \frac{1000 - Y_1}{1000} \right) + \left( \frac{1000 - Y_2}{1000} \right) + \cdots \ldots \ldots \ldots \ldots \ldots + \left( \frac{1000 - Y_{40}}{1000} \right) \right] \tag{8.2}$$

In order to understand how the PGI is superior to H, it is useful to consider an empirical illustration. Notice that for a sample of 8 households, the head count ratio of poverty is commonly coming out as 0.375 (Table 8.1) for both the regions under investigation since the head count method considers the number of persons below the poverty line of Rs. 800 only into account. However, in case of PGI (where we take $G_i$ as equal to '0' if $Y_i > Z$ and equal to $Z - Y_i$ if $Y_i < Z$) we notice that, for the same data, the *PGI* for region 1 (0.013) is lower than that for region 2 (0.119). Thus, the *PGI* value is more instructive to the planners in conveying that better targeting of schemes is necessary to focus in region 2 due to higher intensity of poverty in that region as compared to the region 1. PGI is also not without its own limitation as a principle called Dalton's transfer principle is violated by the PGI. The principle requires that by transferring some money from a above poverty line household to a below poverty line household (called progressive transfer), the PGI in the more severe region should come down. This principle requires that a poverty index should be 'sensitive' to the degree of inequality between the incomes of the poor households or individuals. This principle is violated both by the head count ratio and the PGI. This is because in the case of PGI the gaps are all weighed equally. This lacunae is overcome by the 'squared poverty gap ratio' where the weights are kept proportionate to the poverty gaps themselves (i.e. a poverty gap of 'x' percent is given weight equal to 'x' percent).

**Table 8.1: Headcount Ratio Method**

| Region | MPCE (in Rs.) in 8 Sample Households | | | | | | | | Headcount Ratio ($P_0$) Z = Rs. 800 |
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Region I | 950 | 1100 | 1000 | 975 | 750 | 775 | 790 | 1400 | 3/8 = 0.375 |
| Region II | 1250 | 1150 | 1400 | 1100 | 550 | 600 | 490 | 1200 | 3/8 = 0.375 |

**Table 8.2: Poverty-Gap Ratio Method**

| Region | MPCE (in Rs.) in 8 Sample Households | | | | | | | | Poverty Gap Index (P₁) |
|---|---|---|---|---|---|---|---|---|---|
| | **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** | |
| Region I | 950 | 1100 | 1000 | 975 | 750 | 775 | 790 | 1400 | $Z = 800$ |
| $G_i = Z - Y_i$ | 0 | 0 | 0 | 0 | 50 | 25 | 10 | 0 | |
| $G_i/Z$ | 0 | 0 | 0 | 0 | 0.0625 | 0.03125 | 0.0125 | 0 | 0.10625/8 = **0.013** |
| Region II | 1250 | 1150 | 1400 | 1100 | 550 | 600 | 490 | 1200 | |
| $G_i = Z - Y_i$ | 0 | 0 | 0 | 0 | 250 | 200 | 310 | 0 | |
| $G_i/Z$ | 0 | 0 | 0 | 0 | 0.3125 | 0.25 | 0.3875 | 0 | 0.95/8 = **0.119** |

**Note:** $G_i$ is written as 'zero' if $(Z - Y_i) < 0$ and the actual difference otherwise.

**Squared Poverty Gap Index (SPGI):** Defined as the mean of the squared proportionate poverty gap, this measure reflects the severity of poverty and hence also called as Poverty Severity Index. Defined as a weighted sum of poverty gaps, with weights proportionate to the poverty gaps themselves, the index is marked for being sensitive to inequality among the poor. This means a poverty gap of 5 percent will get the weight of 5 percent, a poverty gap of 60 percent will get the weight of 60 percent, and so on. This is an advanced version of poverty gap index where the weights were equal. In other words, by squaring the poverty gap, the SPGI gives more stress on the observations that fall significantly below the poverty line. The index is thus represented as:

$$SPGI = \frac{1}{N} \sum_{i=1}^{N} \left(\frac{G_i}{z}\right)^2 \qquad (8.3)$$

where $N$ is the total number of population or observations in the poverty survey, $G_i$ is the poverty gap of the i$^{th}$ individual and $z$ is the poverty line. The measure of severity (or depth) of poverty is important as it provides complementary information on the incidence of poverty. This is in the sense that while some groups may have a high poverty incidence (i.e. numerous members are just below the poverty line) but with a low poverty gap, other groups may have a low poverty incidence (i.e. relatively few members are below the poverty line) but have a high poverty gap (e.g. extremely low levels of consumption for those who are poor).

**Sen's Index:** Prof A K Sen (1976) proposed a poverty index combining all the three factors of number of poor, depth of poverty and distribution of poverty within a group. The index is given by:

$$P_s = P_0[1 - (1 - G^p)\frac{\mu^p}{z}] \qquad (8.4)$$

where $P_0$ is the head count index, $\mu^p$ is the mean income of the poor and $G^p$ is the Gini coefficient of inequality among the poor individuals $(0 \leq G^p \leq 1)$. Sen's index is thus the weighted average of headcount and poverty gap measures. The index is mainly used in theory and not so much in the practice due to its difficult composition than the earlier three measures considered. The index also suffers

from the limitation that it cannot decompose the contribution of poverty into different subgroups.

**Watts Index:** This is a distribution sensitive poverty measure defined as:

$$W = \frac{1}{N} \sum_{i=1}^{q} [log(Z) - log(Y_i)] \tag{8.5}$$

where $N$ is the number of individuals arranged in ascending order of income (or expenditure), summed over '$q$' individuals whose income $Y_i$ falls below the poverty line $Z$. This index is gaining in its popularity as it satisfies many theoretical properties. However, this index is also not yet popular in application.

## 8.2.2 Poverty Measurement in India

During the first two five year plan periods, poverty was defined in India as the minimum energy requirement to enable an active and healthy life. For this an energy norm was set as 2400 Kcal per adult per day in urban areas and 2900 Kcal per adult per day in rural areas. Based on this norm, at 1960-61 prices, the poverty line was defined as a national minimum of Rs. 20 per capita per month for rural areas and Rs. 25 per capita per month for urban areas. Many experts have conducted independent studies and recommended different poverty line expenditure levels for rural and urban population. The figures quoted here are those used by the planning commission. These estimates represented a broad judgement of minimum needs, and was not strictly related to nutritional requirements, although these were also taken into account.

Later, for the sixth five year plan (1980-85), the per capita consumption expenditure approach was used. The energy requirement per day was lowered to a norm of 2400 Kcal per adult per day in rural areas and 2100 Kcal per adult per day in urban areas. Based on observed consumer behaviour in 1973-74, it was estimated that on an average consumer expenditure of Rs. 49 per capita per month for rural areas and Rs. 57 per capita per month for urban areas was the poverty line. The concept of poverty line used at this stage was thus partly normative and partly behavioural. The approach did not seek to measure the nutritional status nor did it take into account the incidence of malnourishment and under nourishment in the population. Thus, the poverty lines drawn were based on consumption requirement and not actual income. The approach thus obfuscated dependence on 'debt, use of common property resources and informal social security'.

The approach to measuring poverty line was further modified to include five non-food items (viz. Clothing, footwear, durable goods, education and institutional medical expenses) based on consumer expenditure data for a 365-day recall period w.e.f. 2004-05 (61st round of NSSO survey). Further, to assist a more scientific basis for including the 'protein calorie requirement', the National Nutrition Monitoring Bureau (NNMB) had begun collecting data on diet and nutritional status of rural households for 10 states since 1974-75. The periodic reports of NNMB had revealed that the protein calorie adequacy status was stable till 1981 but had been declining since then. A second revelation of these reports was that in 2002 only one-third of preschool children were meeting the protein calorie adequacy norm. The latter is suggestive of the fact that under-nutrition is a major problem among the preschool children in India. And yet another change introduced in the methodology of estimating poverty line was the introduction of

'mixed recall period' approach in 2004-05. Prior to this (in the consumer expenditure survey of 2000) a 'uniform recall period' (URP) of 30-days was adopted for all items including both food and non-food. The modified approach of MRP in 2004-05, in which the 365-day recall approach was used for non-food items and 30-day recall approach was used for other items. The estimates of poverty line for 1999-2000 were placed at Rs. 27 per capita per day for rural areas (or Rs. 810 per month) and Rs. 24 per capita per day for urban areas (i.e. Rs. 720 per month). The corresponding estimates for the year 2004-05 were Rs. 28 for rural areas (Rs. 840 per month) and Rs. 26 (Rs. 780 per month) for urban areas.

Estimates of poverty line made to a time point closer to post-2010 are from two major reports. The first of this relate to the Tendulkar report (2009) which placed the per capita per day requirement (for 2009-10) in rural areas at Rs. 27 with the corresponding estimate for urban areas at Rs. 33 (i.e. Rs. 810 per capita per month for rural areas and Rs. 990 per capita per month for urban areas). The Tendulkar estimates used a common poverty line basket (PLB) for both the rural and urban areas which was a departure from considering two separate baskets of consumption in all earlier exercises. This was done by the Tendulkar committee to avoid the element of 'arbitrariness in specifying the numerical nominal level of PLB' and it therefore chose to regard the relatively less controversial urban level PLB of a poor household as the common PLB for both rural and urban areas. This was done after duly adjusting for 'intra-state and inter-country rural-urban price differentials'. Reverting to the earlier two separate poverty line baskets for rural and urban areas, the second report by Rangarajan (2014) estimated the poverty line for 2014 as Rs. 32 per capita per day for rural areas and Rs. 47 per capita per day for urban areas. This works out to a monthly per capita per day estimate of Rs. 972 for rural areas and Rs. 1407 for urban areas. The report of 2014 estimated the percentage of people below the poverty line in 2011-12 as 29.5 percent at the all India level with its distribution over the rural and urban locations placed at 30.9 percent and 26.4 percent respectively.

**Check Your Progress 1** [answer within the space given in about 50-100 words]

1) Define poverty.

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2) Distinguish between absolute poverty and relative poverty.

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3) What are the two approaches used to measure poverty? How do they differ?

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4) What was a basic lacuna of the consumption or income approach of measuring poverty?

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5) How is the 'headcount ratio' of measuring poverty defined? What is its basic limitation?

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6) How is the 'poverty gap index' (PGI) measure an improvement over the 'headcount ratio/index'? In what way PGI is useful as compared to the headcount ratio? What is the limitation of PGI measure of poverty?

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7) How is the 'squared poverty gap index (SPGI)' an improvement over the PGI?

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8) What is the Sen's index of poverty? In what way it is superior to the other methods?

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9) What are the major factors that have been taken into account in the approaches to estimate poverty in India? In what way they have changed over time?

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10) Present a chronological picture of the different estimates of poverty worked out for rural and urban regions in India.

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## 8.3 POVERTY LINKAGES

We earlier noted that poverty is multidimensional. This means it has linkages with many factors cutting across social and economic spheres. In this section, we shall see how these linkages work, some in favour and some against.

### 8.3.1 Nutrition

Poverty restricts the income and thereby the expenditure causing in turn the dietary deprivation and malnutrition. Due to malnutrition, there is lack of mental and physical development. The poor in India have had access to subsidised food through the public distribution system. As a result, though pockets of food scarcity still exist, famines have been eliminated. Over the years, there has been a decline in household expenditure on food, particularly among the poor. To combat such situation, since 1975, the government has launched the Integrated Child Development Services (ICDS) programme in which food supplements are provided to children and pregnant and lactating women in the entire country. In spite of this, low birth weight rates are still over 30 percent and about half the children are undernourished. High undernutrition rates among children is mainly due to low birth-weight and poor infant and child feeding/caring practices.

## 8.3.2 Credit

After the financial liberalisation, there has been expansion in services of microfinance. Initially, this was considered a positive development, but over time it has been realised that it is burdening the poorer sections of the society with higher interest rates charged. There is, however, evidence that better access to credit by the poor enables them to pull themselves out of poverty by helping them invest in their human capital and set up microenterprises which has the potential for making a dent into their poverty.

Improvement in credit services can be measured by two indicators: (i) the ratio of total bank credit to the Net State Domestic Product and (ii) financial inclusion or penetration measured by per capita bank branches (i.e. total number of operating bank branches per million persons in each state). It is observed that financial depth has a negative and significant correlation particularly with rural poverty in India. This is effected by reduced migration from rural to urban areas. Thus, banking sector development and financial inclusion can reduce income inequality and poverty.

## 8.3.3 Insurance

Tertiary healthcare is often too expensive for people with low incomes. As a result, those requiring tertiary healthcare often go untreated or are left with devastating hospital bills, both of which exacerbate poverty. In addition, cases of heart disease and cancer, requiring tertiary healthcare are rising in many countries particularly in countries with higher incidence of poverty like in India. To meet the need in this respect, many states in India have introduced social insurance programmes that provide free tertiary healthcare to households below the poverty line. For instance, the Vajpayee Arogyashree Scheme (VAS) launched (in Karnataka) in 2010 entitles beneficiaries for free targeted tertiary healthcare services covering cardiac, oncologic, neurologic, burn and trauma care. Unlike the national health insurance programme (i.e. Rashtriya Swasthya Bima Yojna) for people below poverty line, VAS covers only tertiary healthcare and requires no prior enrolment or annual premiums. It also incentivises healthcare providers to seek out patients with cardiac and oncologic conditions whose treatment requires costly specialised care.

## 8.3.4 Informal Economy

Informal economy includes both self-employment in small unregistered enterprises and wage employment in unprotected jobs of the formal sector. This means, not all informal workers are poor and not all working poor are engaged only in informal sector. In other words, there is a growing segment of workers world-wide who derive informal employment in the formal sector without any benefits of social security. This trend requires recognition for its vulnerability to catastrophic healthcare expenses which would marginalise the poor even more.

## 8.3.5 Discrimination

Poverty and discrimination are often linked. Discrimination based on ethnicity, race, gender, etc. directly influence access to economic opportunity through a complex set of institutional effects in families, schools, and work settings.

Discrimination can both cause poverty and be a hurdle in alleviating poverty. Although the achievements under 'millennium development goals' (MDGs) have supported aggregate progress, even in countries where there have been significant gains toward achieving the MDGs, inequalities have grown. Recognition of this fact has brought about an increasing awareness on the importance of working to reduce the growing economic inequalities in the post-2015's renewed MDG framework. A key element of this is to actively work to eliminate discrimination.

## 8.4 POVERTY ALLEVIATION INITIATIVES TILL 2010

An integral part of a well-rounded and holistic anti-poverty strategy must be sustained rapid growth. Conceptually, sustained rapid growth works through two channels to rapidly reduce poverty. First, rapid growth creates jobs and raises real wages. Second, rapid growth leads to growth in government revenues. Enhanced revenues, in turn, allow the expansion of social expenditures at faster pace. India began with very low income and low growth for more than three decades after independence. The result was relatively low level of per-capita expenditure on health, education and direct anti-poverty programmes. Faster growth during the 1990s, and during 2003-04 to 2011-12, changed the situation to enable India afford a universal rural employment guarantee scheme and near-universal public distribution system (PDS) that offers cereals at highly subsidised prices. Against this background, in the present section we will take note of three *major* areas which are *important* from the point of view of poverty alleviation in India.

### 8.4.1 Agricultural Growth

Any strategy for poverty reduction must tackle the issues facing rural India which still accounts for 68.8 percent of the total population (i.e. close to 833 million people as per the 2011 Census). Further, in 2011-12, about 80 percent of India's poor lived in rural areas with the livelihood of most of them dependent directly or indirectly on the performance of agricultural sector. The rural farm and non-farm incomes are so much interdependent that a strong non-farm rural economy requires a vibrant agricultural growth. As per the 2011-12 Employment-Unemployment Survey of NSSO, agriculture and allied activities employed 49 percent of total workforce in India. Despite this huge workforce dependent on agriculture, the share of agriculture in the GDP is below 15 percent. One of the reasons for this skewed distribution of labour force in agriculture is the paucity of alternative livelihood opportunities either at village level or in the nearby townships and cities. Excess labour force coupled with traditional agricultural practices has resulted in low farm yield and income. To break this cycle of poverty in rural areas, a two-pronged strategy is required: one, we must improve the performance of agriculture sector and, two, simultaneously create jobs in industry and services in both the rural and urban areas.

### 8.4.2 Mid-day Meal Scheme (MDMS)

The MDMS was launched as a Centrally Sponsored Scheme in 1995 with the objectives of: (i) improving the nutritional status of school children, (ii) eliminate classroom hunger and enhance school enrolment and (iii) retain school attendance minimising the dropout rates. With effect from 2008-09, the programme has been

extended to upper primary level. The government envisages expansion of MDMS in a progressive manner to include children in private schools (as they have a 25 percent quota for Economically Weaker Sections), particularly in SC/ST and Minority concentrated areas. There is however a poor convergence of MDMS with the school health programme. As such, there is a need to form networks of Medical Colleges, Home Science faculties and State level MDMS steering and monitoring committees to evolve state-specific guidelines for improved quality and safety of food provided under the MDMS. As of now, only 75 percent of schools have kitchen sheds. This means that 25 percent of schools (3.62 lakhs) prepare the mid-day meal either in an open area or in the classrooms. This is a major cause of concern for the health and quality of education of students.

### 8.4.3   MGNREGA

MGNREGA guarantees 100 days of unskilled employment at a specified wage in a given financial year to one member of every rural household. The scheme was launched in 2006-07 in 200 selected districts but was gradually extended to the whole country. The underlying objective of the scheme is to enhance the livelihood security of the poor households in rural areas of the country. Other objectives include rejuvenating natural resource base, creating productive rural assets, stimulating local economy by providing safety net to rural poor, ensuring women empowerment and strengthening grassroots level democratic institutions. Approximately two-third of works taken up under MGNREGA are related to water conservation and other activities with positive impact on agricultural productivity. A large number of MGNREGA workers are small and marginal farmers. Scheduled Castes and Scheduled Tribes account for nearly 47 percent of the total person-days employed. As against the norm of 33 per cent, women's participation in the scheme is upwards of 50 percent (e.g. 51.3 percent in 2012-13, 52.8 percent in 2013-14 and 54.9 percent in 2014-15). The average wage has risen from Rs. 65 in 2006-07 to Rs. 144 in 2014 (per person per day). In an important development, MGNREGA has been notified by the Ministry of Finance under Direct Benefits Transfer (DBT) scheme for all districts in the country. On the negative side, as against the guaranteed 100 days of wage employment to one person in each household annually, MGNREGA's average achievement has been less than 50 days except in 2009-10 when it touched about 54 days.

## 8.5   RECENT MEASURES OF POVERTY ALLEVIATION: POST-2010

Three important measures have been initiated during the post-2010 years. These are as follows.

### 8.5.1   National Food Security Act, 2013

India has had a long history of maintaining a public distribution system (PDS) whereby the government offers subsidised food grains to the citizens. Originally, the system was universal but was later made selective to target the poor. The National Food Security Act (NFSA) of 2013 specifies that 75 percent of rural and 50 percent of urban populations are eligible for five kilograms of food grain per person per month at subsidised prices. A small subset of extremely poor households is provided seven kilogram of food grain under the programme. In

broad terms, the PDS works on the basis of government procurement of foodgrains at pre-specified Minimum Support Prices (MSP) in selected regions of the country. It then offers this grain to the states which in turn pass them on to beneficiaries through a vast network ending with the PDS shops.

### 8.5.2 Direct Benefit Transfer

Two key instruments viz. Jan Dhan bank accounts and biometric identity cards (Aadhar) are aimed at revolutionising the anti-poverty programmes by replacing the current leaky distribution of benefits under various schemes by the Direct Benefit Transfer (DBT) method. Under MGNREGA, in which direct transfers of wages have already begun, the employer records employment of a worker in a central database using the Adhar identity. This ensures a transfer of the wage payment from a central government account to the worker's bank account. The worker can then access that account via mobile or a banking correspondent. The government introduced certain insurance schemes for Aadhar-linked bank accounts. For instance, RuPay cards to more than 10 crore beneficiaries who will get a benefit of personal accidental insurance of Rs. 1.00 lakh per household have been issued. There is also a life insurance cover of Rs. 30,000. The major shift in DBT is that it targets households covering both rural and urban areas.

### 8.5.3 Housing for All, 2016

Merging the two rural-urban housing schemes of Indira Awas Yojana (IAY) and Rajiv Awas Yojana (RAY) a new programme of 'Housing for All (Rural and Urban)' has been launched in 2016. The programme aims at providing pucca houses with basic amenities of water, sanitation, electricity and broadband for all by 2022. If successfully implemented, the programme has the potential of resulting in increased investment creating much needed decent jobs across the country. There are, however, several challenges in the successful implementation of this scheme. First, affordable housing is not possible unless land is made available for the purpose. Issues related to the Urban Land Ceilings Act (1976) need to be addressed in this regard.

**Check Your Progress 2** [answer within the space given in about 50-100 words]

1) How is nutrition status an important determinant of poverty?

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2) How is credit useful in alleviating poverty?

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3) What role does insurance play in combating poverty?

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4) How does sustained rapid growth help in reducing poverty?

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5) In what way 'agricultural growth' is important to combat poverty?

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6) In what way does DBT aims at revolutionising the antipoverty programmes in India?

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## 8.6 LET US SUM UP

Some poverty measures like the head count ratio are simple to compute but are less efficient in capturing the severity of poverty. Measures like PGI and SQGI are superior as they take into account the severity of poverty. In India, estimates of poverty have been developed by taking into account the consumption pattern revealed by the NSSO consumer expenditure surveys. Taking a minimum basket of consumption needs, to which more recently some non-food items have also been added, poverty lines are determined equivalent to a level of income required to access the basic needs. Estimates made from time to time have varied from a poverty line income of Rs. 20 per month per capita for rural regions in 1961 to Rs. 972 around 2010. Many poverty alleviation schemes have been launched which have contributed to reducing the proportion of poverty level persons in the population. More recently, in the post-2000 years, the launch of MGNREGA, DBT, VAS, gradual extension of MDMS to different levels of education, etc. are some of the government initiatives aimed at plugging the leakages of resources and ensuring targeted delivery.

## 8.7 SOME USEFUL BOOKS

1) Datt Gaurav and Martin Ravallion (1992). 'Growth and Redistribution Components of Changes in Poverty Measures: A Decomposition with Applications to Brazil and India in the 1980s." *Journal of development economics* 38, No. 2 (1992): 275-295.

2) Gillis Malcolm, Dwight H Perkins, Michael Roemer and Donald R. Snodgrass (1992). *Economics of Development,* No. 3, WW Norton & Company Inc.

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## 8.8 ANSWERS OR HINTS TO CHECK YOUR PROGRESS EXERCISES

**Check Your Progress 1**

1) Poverty refers to a lack of minimum level of income, or material possessions, due to which one is not able to meet the basic needs of food, clothing and shelter. Technically, it is defined by the concept of 'poverty line' which refers to the line indicative of the minimum needs to support oneself productively.

2) Relative poverty takes into consideration an individual's social and economic status in relation to that of others in the society. Absolute poverty is what we have stated above i.e. absence of minimum income or wealth to enable the purchasing of basic needs like food, clothing and shelter.

3) Poverty is measured by the income approach or the consumption approach. The latter includes consumption made not necessarily by spending money i.e. food received in exchange for wages. In the income approach it is defined as the money required per day to purchase the basic needs. Both are subject to change over time.

4) The approaches did not measure the undernourishment or malnourishment. It also did not take into account the need to meet the basic education and health expenses.

5) This is defined as the ratio of number of persons below poverty line to total number in the population. It does not therefore reveal the severity or extent of poverty.

6) While the headcount ratio for two regions having the same number of persons below the poverty line would be equal, their PGI would be different enabling the policy planner to focus on targeted assistance in the region. A limitation of PGI is that it is not sensitive to the degree of inequality between the incomes of poor households or individuals.

7)  By using weights proportionate to the poverty gaps, the SPGI overcomes the lacuna of PGI which assigns equal weights to all those who are poor. In effect, you can observe this difference from the fact that the ratio for PGI is commonly multiplied by '1' [i.e. $\left(\frac{Z-Y_i}{Z}\right)$ is multiplied by '1'] for all those who are poor whereas in SPGI it is: $\frac{G_i}{z}$ multiplied by $\frac{G_i}{z}$.

8)  Sen's measure takes into consideration what is centrally considered by all three measures viz. the headcount ratio (number of persons below the poverty line), PGI (intensity of poverty) and SPGI (distribution of poverty within a group). It is actually the weighted average of headcount and the poverty gap measures.

9)  Whereas only the food items were considered in the earlier surveys, post-2000 non-food items also were taken into account.

10) Expressed as monthly per capita expenditure, the estimates for rural poverty have varied from Rs. 20 in 1961 to Rs. 49 in 1974 and Rs. 810 in 2000. Post-2010, the rural poverty is estimated at Rs. 972, while the urban poverty level is placed at Rs. 1407 mark.

**Check Your Progress 2**

1)  By resulting in lack of mental and physical development of new born children, low birth weight of children by undernourished mothers, lack of child rearing and caring practices, etc.

2)  It can help poor family invest in better healthcare and education of children. It can also help them set up microenterprises.

3)  Social security insurance, extended without need for prior enrolment and premium burden, can play a useful role by providing coverage for major tertiary healthcare which are costly and unaffordable by poor households.

4)  In two respects: (i) by creating jobs and raising real wages; and (ii) by leading to growth in government revenues allowing for increased social sector investments.

5)  In two ways: (i) improve the performance of agricultural sectors; and (ii) create jobs in industry and services in both rural and urban areas.

6)  Aimed at country wide coverage, and by linking payment and subsidies to the poor workers directly into their bank accounts, the major lacunae of pilferage of public funds is sought to be curtailed through the DBT.

# UNIT 9 INEQUALITY[*]

**Structure**

## 9.0 OBJECTIVES

After reading this unit, you will be able to:

- define inequality;

- describe the types of inequality, differentiating in particular, between horizontal inequality and vertical inequality;

- indicate the measure of inequality in income given by Gini (Gini coefficient) with the expression used for its computation in a sample data;

- analyse the trends in inequality in terms of 'income, consumption and nutrition' in India;

- discuss the issue of regional divergence in inequality in terms of 'standard of living' and 'sectoral growth' profiles in India; and

- examine the concept of 'sectoral divergence' in inequality in a comparative profile of the pre- and post-reform years in India.

## 9.1 INTRODUCTION

The dictionary meaning of **Inequality** is 'an unfair situation in the society where some people have more opportunity, income, etc. than others'. It is the difference in social status and wealth or opportunity between people or groups. Inequality in economics means the difference in the economic well-being among individuals, groups or countries. Such inequality depends upon people's disability, ethnic background and gender. A broad distinction is thus

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[*] Dr. Smritikana Ghosh, Asst. Professor, Scottish College Kolkata.

made between 'inequality in outcome' and 'inequality in opportunity'. The former occurs when individuals cannot posses equal level of material wealth which indicates the state in which people live in dissimilar economic conditions. Inequality in opportunity, on the other hand, is concerned with ensuring a common starting point. Introduced by Prof Amartya Sen, through his capability approach, well-being under inequality of opportunity is defined in terms of 'the people's freedom to choose and act', both of which must be provided by the state as a matter of 'right' under the 'social justice theory'. Apart from these two basic distinctions, there are many other specific types of inequality. For instance, inequality can be defined in terms of income, consumption and nutrition. It can also be defined in terms of 'inequality among groups' (called horizontal inequality), and 'inequality among individuals' (called vertical inequality). To have an idea of different types of inequalities, we have different measures. In this unit, we shall be dealing with these concepts and issues.

## 9.2 TYPES OF INEQUALITY

Broadly, inequality is distinguished as economic inequality and social inequality. Economic inequality mostly means 'income inequality' which translates into inequality in consumption, nutritional and living conditions. Social inequality, on the other hand, has multiple dimensions of which two major ones are: (i) political inequality and (ii) inequality in opportunities (arising from opportunities to access education and health services).

Income inequality shows the extent to which income is unevenly distributed among the population. It could be the unequal distribution of household or individual income. Income inequality is often presented as percentage of income to a percentage of population e.g. 70 percent of a country's income is controlled by 20 percent of the country's population. From this point of view, income inequality is associated with the idea of 'fairness' or 'justice' since it is generally considered 'unfair' if the rich have a disproportionally large portion of a country's income. The causes of income inequality could vary by region, gender, education and social status. There is a lack of consensus among economists on the implications of income disparity and on whether it is ultimately positive or negative.

In India, income inequality has grown since the 1980s; top 10 percent of earners had 30 to 35 percent of national income in the 1980s, but of late (2016) the percentage share of income of the top 10 percent has increased to 55 percent (World Inequality Report, 2018). Such a trend is interpreted as a 'widening of disparity between high earners and low earners' or 'increasing income inequality'. Social inequality can be viewed in many ways. It could be concerned with the type of opportunities needed to enhance income (e.g. achieving equality in opportunities to avail educational and health services) or inability to mobilise to have their voice heard (e.g. political inequality). They are concerned with the circumstances which are beyond the control of individual human beings but can be made good either by the state or by organised mobilisation.

### 9.2.1 Horizontal Inequality and Vertical Inequality

Inequality can be differentiated from the perspective of inter-group (i.e. between groups) or intra-group (i.e. within a group) inequality. Based on this, two types of inequalities are distinguished viz. horizontal inequality and vertical inequality. Horizontal inequality refers to inequality among culturally defined or constructed groups (i.e. inter-group e.g. by ethnicity, religion). There is growing evidence that the nature and level of horizontal inequality are important determinants of the 'risk of violent conflict'. Group inequality generates powerful grievances which leaders can use to mobilise people to political protest. While such mobilisations might themselves work as instruments to reduce inequality through benefits extended by the government in response to organised protests, from an economic standpoint, focusing on reduction of horizontal inequality is particularly important in conflict-prone societies. This is because violent conflicts are known to undermine development and increase poverty.

Vertical inequality refers to inequality among individuals or households. The nature and extent of vertical inequality are important for a number of reasons. One is that of creating a just society because happiness tends to be higher in an egalitarian or more equal society. Secondly, the extent of inequality, for any given national income per capita, determines the level of poverty. The millennium development goals (MDGs) are concerned with the number of individuals living in poverty in the world as a whole. Thirdly, there is evidence that a more equal economy grows faster. Hence, reduction of vertical inequality becomes an economic objective. Fourthly, higher inequality is generally associated with higher rates of criminality. In view of these, developing policies to reduce vertical inequality are important.

Hence while it is important to tackle both types of inequalities, for countries at risk of conflict, it is particularly important to focus on reducing horizontal inequality especially where there have been a major past source of conflict. While vertical inequality is typically measured in terms of income, and occasionally assets, the measurement of horizontal inequality extends to a broad range of political, economic and social variables.

## 9.3 INEQUALITY IN INCOME, CONSUMPTION AND NUTRITION IN INDIA

A number of programme have been implemented by the government of India to help raise the income of poor households by giving them 'wage employment' opportunities thereby reducing the ill-effects of income inequality. Given that a large number of poor are uneducated and therefore unskilled, such employment programme are run to ensure a fixed number of days of employment, sometimes on 'food for work' basis, mainly to assist poor families subsisting below the poverty line. A detailed account of the efforts made in this direction is provided in the next unit on Employment and Unemployment (Section 10.3). For the purposes of this section in the current unit, we shall see what has been the trend (i.e. the impact of the efforts made over time) in terms of 'income, consumption and nutrition' inequalities in India over the past seven decades.

## 9.3.1 Income Inequality

India is the second most unequal country globally with millionaires controlling 54 percent of its wealth (amounting to 5600 billion dollars). It is among the 10 richest countries in the world and yet the average Indian is relatively poor. Major reasons behind this income inequality, for any country in general, are: (i) highly unequal asset distribution; (ii) inadequate employment generation; and (iii) differential regional growth. In particular, for India, major causes of income inequality could be identified as follows.

As stated before, vertical inequality is typically measured in terms of income and assets. For assets, in rural areas, landholdings are typically considered. The classes of landholding in India (based on the size of land owned where 1 hectare is equal to 2.47 or roughly 2.5 acres), are distinguished for the following six classes: (i) landless (below 0.002 hectare); (ii) marginal (0.002 to 1 hectare); (iii) small (1-2 hectare); (iv) semi-medium (2-4 hectares); (v) medium (4-10 hectares) and (vi) large (more than 10 hectares). Further, for the purpose of this classification, the social class of population is considered as a secondary variable. The social class is classified into four major classes viz. (i) scheduled caste (SC), (ii) scheduled tribe (ST), (iii) other backward classes (OBC) and (iv) others. Data on land holding, across different social classes, are collected and published by NSSO (national sample survey organisation). The latest data available in this respect for 2010-11 (published in the 70th round of NSSO in 2013) shows the following trend:

- 75 percent of total operational holdings are marginal holdings with another 10 percent of holding coming in the small class. About 7 percent are landless (i.e. less than 0.0002 hectares). Thus, a total of 85 percent of operational holding belong to the 'small and marginal' segment operating in a cultivable area of less than an acre. In terms of the total area operated they account for about 44 percent. Thus, the average holding is typically very low. On the other hand, large holdings (i.e. area of above 10 hectares) are less than 1 percent (0.7 percent) of total holdings but account for nearly 11 percent of the total cultivated area. The extent of inequality in land holdings is thus apparent but can be further gauged by an indicator like Gini.

- The Gini-coefficient for concentration of land by social category of ownership is 0.8 for the SC, 0.7 for OBC and 0.6 for ST. Since the value of Gini closer to 1 means more inequality, it follows that the class of people below the social rung is also the ones at an absolute disadvantage in respect of the ownership of landholdings.

- Due to easy availability of finance from banks and other financial institutions, large industrialists belonging to the private corporate sector have acquired a high degree of concentration of assets/wealth.

The consequences of such high income inequality are: (i) class conflict; (ii) political domination; (iii) exploitation; (iv) creation of monopoly; (v) suppression of talent by undemocratic means; (vi) moral degradation; and (vii) promotion of unequal capital formation.

### 9.3.2 Consumption Inequality

Consumption inequality is measured by the data on Monthly Per Capita Expenditure (MPCE) in rupees at MMRP (modified mixed reference period) levels. Until 1993-94, the poverty line was based on URP (uniform reference period) data which involved asking people about their consumption expenditure across a 30-day recall period. Since 1999-2000, the method is changed to collecting data according to the 'mixed reference period' (MRP). Under the MRP, data on *five less-frequently used items* are collected over a one year period and for other items the 30-day recall is adopted. The low-frequency items include expenditure on health, education, clothing, durables, etc. Currently, all poverty line data are compiled using the MRP method. In the MMRP method, for some food items, instead of a 30-day recall, a 7-day recall is adopted. This is believed to provide a more accurate reflection of consumption expenditures. With the collection of data by the new method, consumption expenditures for people in both urban and rural areas are observed to have gone up by 10 percent to 12 percent. This shows that people could better recall their food expenditure over a shorter 7-day period than over the longer 30-day period. The higher expenditures, combined with the high population density around the poverty line means that the poverty rate for India (for 2011-12) has come down sharply. By states, the rural-urban gap in consumption is wider for Jharkhand, Karnataka, West Bengal and Odisha (gap is more than 90 percent of rural MPCE) whereas in Bihar, Kerala and Punjab the gap is less than 35 percent. The average rural-urban gap for India as a whole is also 82 percent. This is despite the fact that for rural India the MPCE has consistently increased from Rs. 160 in 1993-94 to Rs. 220 in 2011-12 (at constant 1987-88 prices). The corresponding figures for urban India are 265 and 400. The rural-urban gap has thus increased from 65 percent in 1993-94 to 82 percent in 2011-12.

Gini-Coefficient: This is the widely used method to measure income and consumption inequalities. It measures the degree of concentration in the inequality of a variable in a distribution of its elements. It ranges in its limits between 0 and 1 where it assumes the value 'zero' when there is perfect equality in society. The Gini-coefficient gives the summary figure for Lorenz curve which first ranks the population according to different levels of consumption/income and then plots the 'cumulative proportion of consumption/income against the cumulative proportion of the population enjoying that level of consumption/income' (Fig. 9.1). The Gini coefficient takes the theoretical maximum value of 1 when in a population the income level of every individual except one is zero. The Gini-coefficient is calculated as: *G = area AEDF/area AEDB*. Since this lies between zero and one, the inequality increases as the index moves from zero to one. In empirical exercises the Gini-coefficient is calculated by the formula:

$$G = \frac{1}{n}\left[n + 1 - 2\left(\frac{\sum_{i=1}^{n}(n+1-i)Y_i}{\sum_{i=1}^{n}Y_i}\right)\right]$$
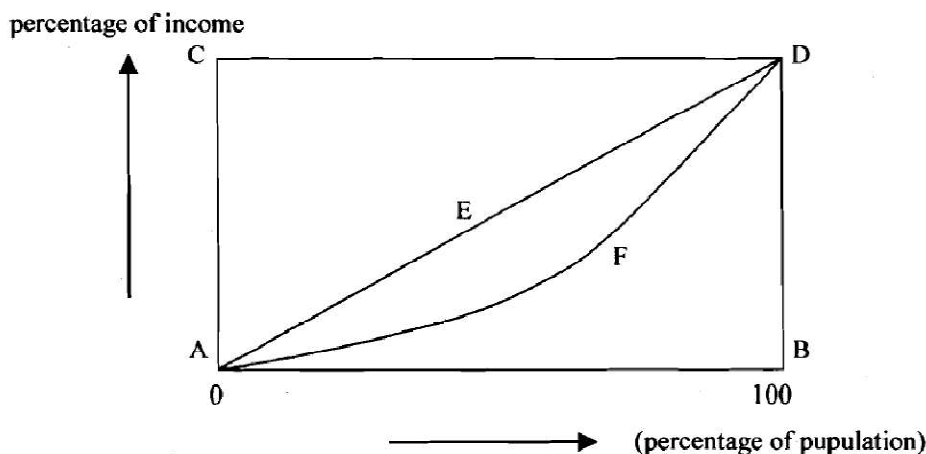
**Fig. 9.1: The Lorenz Curve**

## 9.3.3 Nutritional Inequality

The gap between the nutritional needs of the body and the absorption of nutrition by the body is taken as the extent of malnutrition. The concepts underlying malnutrition and its measurement have already been studied by you in Unit 7 (Sub-section 7.2.1). To recall, under-nutrition is measured by indicators like under-weight, stunting and wasting. *Wasting* represents the failure to receive adequate nutrition. Children whose weight-for-height (WAZ) is below minus three standard deviations (–3 SD) from the median of the reference population are considered to be *severely wasted* and those below –2 SD as *wasted*. The height-for-age (HAZ) index is an indicator of linear growth retardation and cumulative growth deficits. Children whose height-for-age Z-score is below –2 SD from the median of the reference population are considered *stunted* or acutely malnourished. Similarly when this Z score is less than –3 SD, the child is called severely stunted or chronically malnourished. Stunting reflects failure to receive adequate nutrition over a long period and is affected by recurrent and chronic illness. Weight-for-age is a composite index of height-for-age and weight-for-height reflecting both acute and chronic malnutrition. Children whose weight-for-age is below –2 SD from the median of the reference population are classified as *underweight*. To capture the long-term malnutrition among children, *stunting* is considered as the most important measure. As per the different NFHS survey reports, except for *stunting*, the malnutrition level in India is falling in all other respects over the years. This situation is alarming as it indicates long term impact of malnutrition.

**Check Your Progress 1** [answer within the space given in about 50-100 words]

1)  Define inequality distinguishing it between 'inequality in outcome' and 'inequality in opportunity'.

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2) Do you agree that the inequality has increased over the recent years in India? Why?

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3) Distinguish between 'horizontal inequality' and 'vertical inequality'.

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4) Give reasons as to why it is important to focus on reducing the horizontal and vertical type of inequalities?

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5) Why is India regarded as one of the most unequal economies? What reasons are attributed to this situation?

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6) State the six classes into which the landless in India are classified. What does the distribution of these six classes by social groups indicate? What are its consequences?

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7) How is consumption inequality measured in India? What does its trend reveal?

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8) In Sub-section 9.3.2, you have noticed a progressive State like Karnataka figuring with relatively slow progressive states like Jharkhand, W. B. and Odisha and a relatively slow progressive state like Bihar, figuring with more progressive states like Kerala and Punjab. What would you say, could be the possible reason for this?

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9) How is long term malnutrition among children captured? What has been the trend in this respect in India?

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## 9.4 REGIONAL INEQUALITY

According to the neo-classical growth theory, in the initial stages of capital growth the marginal productivity of capital will be increasing, with a corresponding decline in labour absorption. However, in the long run, if it results in labour augmenting technical progress, then the declining effect of labour absorption would be reversed. As a result, the per capita income of regions will increase, and if all states/regions pursue proactive policies of growth, the growth rates would show a tendency to converge to a steady state. In other words, it would result in a reduction in income inequality among those regions over time. This gives rise to the issue of testing the hypothesis of 'divergence or convergence' in a situation where the different states would be experiencing differing growth rates in their SDP owing to their intensity of policies pursued. In this context, there have been concerns that regional inequality in India has increased after the introduction of economic reforms in 1991. While some studies support this concern, there are others which do not. In such a situation, what conclusions can be drawn in this regard? In this section, the issue of divergence in regional inequality will be discussed in terms of 'standard of living' and 'sectoral growth'.

### 9.4.1 Standard of Living

Using the results of computed Gini coefficients, many studies have reported that there is no conclusive evidence for increasing inequality in terms of SDP

in India across the rural and urban households in the states for a longer period like the 1980s and the 1990s. However, during shorter time spans like the immediate years following the introduction of economic reforms (1993-2000), some states have registered increased urban inequality. However, no state has registered increase in consumption inequality, particularly in rural households. Even in terms of income, while some studies have shown convergence among some states in terms of SDP, there are studies which have reported the opposite i.e. divergence. Evidently, it depends on whether we are making a comparison of developed states with progressive states or whether we are comparing fast growing states with slow growing states. In other words, the differing results revealed by studying only the per-capita state SDP are bound to reveal differing trends showing convergence among some states and divergence among some others. Moreover, it would only be based on income as the measure of growth. On the other hand, if one looks at regional inequality measured in terms of a composite set of indicators like per capita expenditure, head count poverty ratio, literacy rate, formal education enrolment, infant mortality rate, life expectancy, access to safe drinking water and access to housing made by relatively permanent materials, the results would be more reliable. As we know, at present, the HDI constructed by employing three indicators viz. life expectancy, education and per capita income, used as a measure of 'standard of living' of the people, is the best choice for this. Analysis based on HDI shows that in India after 1990s, standard of living has not fallen in general over the states. However, across the regions, divergence is observed in respect of the following:

- there is a east-west divergence after liberalisation with the western part of the country having increased its share of income. But there is no strong north-south division in terms of the relative income shares;

- most regions which are better performing are in urban parts of the country i.e. the rural India has benefited less in relative terms;

- liberalisation has not improved the agricultural rain-fed regions; and

- while some states are doing consistently well in terms of all regions (e.g. Karnataka, Kerala, Punjab and Haryana), there are others with marked disparities in their performance (e.g. Andhra Pradesh, Madhya Pradesh and Maharashtra).

### 9.4.2 Sectoral Divergence

Making an analysis by principal sectors (i.e. agriculture, industry and services), some studies have shown that the reforms have made no impact on the regional inequality for the agricultural sector. But as far as the industrial and the services sectors are concerned, the reforms have completely changed the trends in terms of their contributions to GDP from the constant trends observed during the 1980s to the sharply increasing trends observed during the 1990s. For the agricultural sector, on the other hand, a moderate upward trend in regional inequality within the sector is noted. Despite this upward trend, a strong decline in its relative size has ensured that the contribution of this sector to regional inequality has remained almost constant over the two

decades of 1980s and 1990s. The rising trend in regional inequality within the sector is explained as partly due to the high growth rate of agriculture in some states (e.g. Madhya Pradesh, Andhra Pradesh, Assam) with a stronger agricultural base and partly due to the corresponding stagnation and shrinking of the sector in the agriculturally backward states like Bihar and Odisha. Since the location of agricultural production is tied to arable land, this divergence cannot be explained by the 'agglomeration effect' discussed in the literature. Another plausible explanation for this divergence may be that the more prosperous agricultural states have the surplus to make the necessary investment in irrigation, warehouses, cold storages and other infrastructure that sustained the growth rate of agriculture in these states, while the poorer states with no surplus either stagnated or shrunk further in the absence of sufficient investment.

In so far as the industrial and the services sectors are concerned, owing to the relative size of the two sectors and their inter-linkages to the economy, there was a fall in regional disparity in the pre-reform period but a distinct rise in the post-reform period. In other words, the industrial and services sectors have registered a fall in inequality before the reforms due to the centrifugal effect (i.e. a receding effect) and a rise due to the centripetal effect (i.e. a galvanising effect) post-reforms. The reason for this is conjectured to be the policy of the government in the pre-reform period, to check the regional divergence by focusing on expansion of the industrial and services sectors through multiple channels. One channel worked through the public sector, where, a sizeable part of the public investments were made in relatively backward areas. The other channel worked through the private sector, which was encouraged through the use of fiscal incentives and industrial licensing, to invest in these areas. In other words, while the state played a crucial role in bringing down inequality in these two sectors during the pre-reform period, in the post-reform period, the expansion of the industrial and service sectors contributed to the observed divergence due to factors like: (i) dismantling of the industrial licensing system giving the private sector the freedom to choose its location and minimise the transportation costs which triggered the shift in their production base to the metropolitan areas in the richer states; (ii) the reforms gave a boost to export-oriented production which contributed to increasing the share of exports to GDP ratio from 8.5 percent in the 1980s to about 15.5 percent in the 1990s; and (iii) the manufacturing exports sector minimised its transportation costs to international markets by preferring to locate itself near the coastal areas with good infrastructure. Since these facilities were mostly available in the relatively developed states in the western and the southern parts of the country, such a preference increased the regional inequality between these states and the poorer ones.

There was a modest rise in the average exports ratio in the services sector from about 4 percent in the 1980s to about 5.5 percent in the 1990s. The constituents of services sector which benefited from these exports are the information technology and the financial services. As both these sectors needed highly developed telecommunication infrastructure and high quality human capital, both of which were available in the metropolitan areas, the growth of these sectors in these areas contributed to increasing the gap in

inequality between the relatively underdeveloped regions and the more prosperous ones. Further, the reforms contributed to shifting the focus of the public sector to providing utilities and infrastructure. This resulted in increasing the average share of electricity, gas and water (i.e. utilities) in the total industrial GDP which went up from about 24 percent in the 1980s to about 32 percent in the 1990s. Likewise, the average share of banking and insurance (a part of the financial infrastructure of the economy) went up from about 13 percent in the 1980s to about 20 percent in the 1990s. Since the utilities and infrastructure are in higher demand in developed regions, a shift in the public sector's investment in these services sectors, diminished the capacity of the government to check regional divergence through public investments.

**Check Your Progress 2** [answer within the space given in about 50-100 words]

1) What does the analysis of regional performance based on SDP reveal? Is it reliable? If not, what is the alternative to study regional performances by different states?

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2) In what respects divergence in inequality is found among the Indian states?

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3) In terms of sectoral profiles, in a comparison of pre and post reform periods, how has the agricultural sector fared in respect of regional inequality?

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4) State the two reasons advanced for the inequality observed in agricultural growth between the states in India.

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5) What trend is evidenced between states in respect of 'industry and services' sectors on the expected diverging or converging character (to either accentuate or reduce) inter-regional inequality?

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6) State the three reasons which contributed to increased regional inequality between the states which registered higher growth and the states which registered lower growths.

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7) Which are the three services sector constituents which contributed to the higher growth resulting as a consequence in increased inter-regional inequality? By what measure did these three constituents benefit in terms of their relative GDP shares between the pre-and the post-reform years?

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## 9.5 LET US SUM UP

Inequality can be of different types. Broadly, it can be classified into economic and social inequality. Related to the former, inequalities in income, consumption and nutrition are identified. Related to the latter, political and opportunity inequalities are identified. In particular, inequality in opportunities, which results in inequality in outcome, can be identified to the ease or lack of 'access to education and health services'. A further differentiation is made between horizontal inequality and vertical inequality. The former refers to inequalities between groups based on factors like caste,

religion, ethnicity, etc. The latter relates to inequality in household or individuals. Consumption and nutritional inequalities lead to population with stunted growth impacting heavily on the nation's productivity and growth. Taken together, the various types of inequalities could affect the standard of living or the socio-economic well-being of the population. In India, over the recent years, there is evidence of divergence in income-inequality but convergence in consumption inequality. This suggests that all regions have prospered but some have prospered faster than others leading to the observation that there is a 'divergence' experienced in the regional inequality between the Indian states. This observation has occurred during the post-reform years which unleashed the productive spirits of the private sector owing to relaxation in industrial licensing policies. The public sector investment also has seen a diversion: from the agricultural and backward sector investments in the pre-reform years to 'infrastructure and utilities' sector in the post-reform years. Since such investments have taken place in some states/regions endowed better in terms of the geographical or infrastructural bases, the inequality between the backward and the forward states have widened in the recent two decades. This is the feature of Indian economy which is referred to as the 'divergence in inequality' from an inter-regional perspective.

## 9.6 SOME USEFUL BOOKS AND REFERENCES FOR FURTHER READING

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## 9.7 ANSWERS OR HINTS TO CHECK YOUR PROGRESS EXERCISES

**Check Your Progress 1**

1) Defined as the difference in social status and wealth, the former depends upon people's disability, ethnic background and gender while the latter is concerned with ensuring a common starting point as a matter of 'right' by the state.

2) During the 1980s, the top 10 percent of high income earners owned about one-third of total national income. But in recent years, this proportion has shot up to over 50 percent.

3) Horizontal inequality refers to inequality among culturally defined or constructed groups. Vertical inequality refers to inequality between individuals or households.

4) Horizontal inequality is known to feed on development increasing poverty levels in the population. Vertical inequality impacts on the creation of a just society, reduction of poverty levels, to aid faster growth of economy, have a lower degree of criminality in society, etc.

5) Millionaires control more than half of its national income while the average Indian is relatively poor. Major reasons in general are: (i) highly unequal asset distribution; (ii) inadequate employment generation; and (iii) differential regional growth.

6) Landless, marginal, small, semi-medium, medium and large. Distribution by land into social category shows a high Gini ranging from 0.6 to 0.8 indicating high inequality among the vulnerable sections like the SC, ST and OBC. The consequences of such high income inequality are: (i) class conflict; (ii) political domination; (iii) exploitation; (iv) creation of monopoly; etc.

7) By MPCE (monthly per capita expenditure measured in rupees). There has been a steady increase in the MPCE measured in constant prices over time and consequently a significant reduction in proportion of people living below the poverty line. However, there are states where the gap between the urban and rural MPCE differ by more than 90 percent. Even at the all-India level the gap is 84 percent.

8) In Karnataka, the urban MPCE is very high. Likewise, in Bihar, both the rural and urban MPCEs are very low. This has resulted in these states figuring among the ones with which we may not expect to find them. But this feature explains the difference convincingly and hence their places are not misplaced. The example points out to the need for careful observation before interpretation of empirical figures.

9) By using 'stunting' as an indicator. The situation in this respect is alarming as there has been no reduction in this respect over the different periods of NFHS reports and it indicates long term impact of malnutrition as not coming down in India.

**Check Your Progress 2**

1) It shows divergence in some cases and convergence in some others. Based only on income, this is bound to be the case. An indicator like HDI is better to be adopted for a comprehensive assessment.

2) There is evidence of east-west divergence, but no such divergence is noticed for north-south states. Rural India has benefited relatively less. Agricultural rain-fed regions have lagged behind.

3) A moderate upward trend in regional inequality is noticed. But due to the shrunken size of the agricultural sector itself, the increase is not pronounced but has remained more or less constant.

4) One, stronger agricultural base in some states with the corresponding shrinkage experienced in agricultural weaker states. Two, the former also had surplus to invest in required infrastructure which the latter did not.

5) Two concepts of effects viz. the centripetal effect and the centrifugal effect are used to describe the trend in growth of 'industry and services' among the Indian states. The former is referred for the 'receding effect of demand' due to low investment in the pre-reform period. The latter is referred to for the 'surge in demand' owing to proactive policies unleashed by liberalisation measures.

6) Licensing was used as an instrument to channelise resources to backward areas for promoting the setting up of industries in the pre-reform years. This kept the inequality trends more balanced. In the pro-reform years, its dismantling led to investments getting made in those areas with better infrastructure (i.e. the centrifugal effect) which were in metropolitan cities and other parts of richer states. Coastal areas also benefited under the pro-reform industrial promotion policies to the disadvantage of states not endowed with this geographical advantage.

7) Information technology, utilities & infrastructure, and banking & insurance. The respective increase in their share in GDP, between the pre- and the post-reform years, was from: 4 to 5.5 percent, 24 to 32 percent and 13 to 20 percent.

# UNIT 10   EMPLOYMENT AND UNEMPLOYMENT[*]

**Structure**

## 10.0   OBJECTIVES

After reading this unit, you will be able to:

- state the importance of employment and the difficulties in its measurement in a predominantly agrarian economy;

- define the various concepts of employment and unemployment;

- distinguish between the 'workforce participation rate' (WFPR) and the 'labour force participation rate' (LFPR);

- discuss the major features of employment policies pursued in India during the decades of 1950s to 2002;

- describe the changes introduced in employment planning in India during the post-2002 years;

- outline the concept of 'informal economy'; and

- list the social security schemes for unorganised sector workers in India in recent years.

## 10.1   INTRODUCTION

Employment is important from various points of view. It provides the basic means for earning income to a household from which the financing of its expenditure is facilitated. It offers the means for educating the children, the potential future work force, affording the nation in the process to build up its human capital. By spending on food and nutritional needs, it helps in the

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[*] Prof. B.S. Prakash, SOSS, IGNOU; Dr. Karmakar, Jadavpur University

maintenance of the required health for a productive household. After meeting such basic needs, with the setting aside of a part of the household income as savings, the cumulative savings becomes an important component of nation's investment to aid further the process of economic growth. This generates multiplier benefits in many other sectors of the economy. A nation's economic health is indicated by the extent of domestic savings (expressed as a percent of GDP) and a small rate of 'unemployment'. It is therefore important for an economy to have a periodic assessment of its employment requirements and implement suitable policies required for generating the type of employment required. Since the latter depends on the structure of the economy, particularly in terms of the skill composition of its workforce, an important policy decision rests on the mix of labour-intensive and capital-intensive methods of production practices to be adopted. It is important to note that employment is a resulting factor (i.e. it is a result of appropriate policies pursued) and in its mismatch an economy would face the consequences of either lower growth (with higher unemployment levels) or a situation of 'jobless growth' (i.e. income growth not accompanied by enough employment generation). Both these situations, due to their linkage with the overall macroeconomic stability required, are unhealthy for the economy. Against this background, the present unit deals with the concepts and issues of employment and unemployment as is applicable for a predominantly agricultural or agrarian economy like India. In particular, it deals with the issues of their measurement and the employment polices pursued. Besides these two aspects, we will also study about the concept of 'informal economy' and in its light the importance of strengthening social security provisions for the poor.

## 10.2 CONCEPTUAL OUTLINE

As we have already seen in Unit 3 of this course BECE-145, 48.9 percent of workforce in India is still dependent on agriculture. Even though this percentage has come down from a much higher level of 60 percent in 2000, it is still high enough to make our economy classified as 'agrarian' in its character. In such a situation, the high percentage of 'agricultural labourers' who would be depending on day-to-day wage employment for subsistence, needs to be provided with alternative employment to sustain themselves during the non-agricultural season. The percentage of 'agricultural labour to total agricultural workers' has increased from 28 percent to 55 percent over the period 1951-2011. In this context, it is important to understand how 'employment' is defined and measured.

### 10.2.1 Employment

An agricultural worker, or a typical person 'seeking work' (whether in rural or urban areas), needs to be assessed for his employment status by a definitional framework which permits the categorisation into 'worker' or 'non-worker' on a day to day basis. This is because such workers may not get work on all the days and, being dependent on their daily earnings, need to seek and work on as many days in a year as possible. In other words, their employment is not on a 'regular basis' with 'paid holiday' (like those in

regular salaried jobs) and hence every day is a work seeking day for them. Evidently, a classificatory framework to measure such day-to-day employment status, or its complement the unemployed status, needs to be based on different reference periods so as to capture the varying employment statuses of the persons. In India, such 'employment and unemployment surveys' (EUSs) are being conducted by the NSSO (i.e. National Sample Survey Organisation) in a periodicity of once in 5 years since 1972-73. These surveys are also therefore called as quinquennial EUSs. The EUSs adopt four type of approaches viz. (i) the Usual Status (US) approach; (ii) the Usual Principal and Subsidiary Status (UPSS) approach; (iii) the Current Weekly Status (CWS) approach; and (iv) the Current Daily Status (CDS) approach. The approaches relate to two 'reference periods' viz. a long term reference period of 'one year' (for the US and the UPSS approaches) and a shorter 'reference period' of 'one week' (for the CWS and the CDS approaches). The rationale for adopting the two separate reference periods are to: (i) assess the long term employment status; and where this is not the case; (ii) assess the same from a short term perspective. It thus follows that the two week-based approaches provide a basis for assessing the magnitude of 'chronic' employment or unemployment situation as compared to the former two viz. the US and UPSS approaches which indicates a relatively higher/better employment status.

Under the US approach, a person is categorised as employed if he/she reports having been employed for the greater part of the reference year i.e. more than half or 183 days of the year under reference in a single principal activity. If a respondent does not fall into this segment, his status is then ascertained by the UPSS approach. Under this, his principal time of engagement in any one activity (principal activity) is first determined and then further probed to ascertain his secondary activity i.e. the subsidiary activity. The principal activity is one in which he has worked for maximum time and the subsidiary is one in which he has worked for at least 30 days. Thus, based on the three reference periods (viz. one year, one week and each day of the reference week), three different measures of activity status are arrived at. The activity status determined on the basis of the reference period of one year is known as the usual activity status (US) of a person, that determined on the basis of a reference period of one week is known as the current weekly status (CWS) of the person and the activity status determined on the basis of the engagement on each day during the reference week is known as the current daily status (CDS) of the person. In contrast to this approach adopted by the NSSO, the decadal censuses classify the workers as 'main worker' or 'marginal worker' depending on whether the person was working for more than 183 days of the year or not. The census does not further probe in this direction and hence its estimates of workers are comparable with the US approach of the NSSO. Although, to indicate the seasonal character of employment, the typical instance of a rural agricultural worker is chosen in the above description, the classificatory framework is uniformly applied across the rural-urban divide so as to capture the day-to-day employment status on which a large number of persons depend for their daily earnings. The classificatory framework further requires the simultaneous recording of the 'unemployed status' as outlined below.

### 10.2.2 Unemployment

The EUSs are also called as the 'labour force' surveys. The term 'labour force' comprise of 'employed' plus 'unemployed'. The latter, i.e., the unemployed includes those who are seeking employment and, therefore, available for work. In other words, it excludes those who are not voluntarily willing to work. In all the four approaches i.e. US, UPSS, CWS and CDS, respondents are first categorised as those 'in labour force' and 'out of labour force'. The 'out of labour force' includes students, rentiers, pensioners, recipients of remittances, beggars, infirm or disabled persons, persons too young to work i.e. children and casual labourers not working due to sickness. In view of this, besides the time spent criterion, the receipt of income (either in cash or in kind or notionally), whether explicitly received or not, is implicitly being taken into account for classifying a person as 'worker'. The worker so classified is thus an economically active person. The EUSs provide comprehensive estimates of the 'labour force' for four broad groups of workers as follows:

- number of persons in the labour force as per the 'usual status' by considering the usual principal activity only [hence also called as UPS workers];

- number of persons in the labour force as per the 'usual status' by first considering the 'primary activity' and then their 'subsidiary activity' performed for more than 30 days [called as UPSS workers];

- number of persons in the labour force as per the CWS approach; and

- number of 'person days' in the labour force as per the CDS approach.

Thus, under the US and the UPSS approaches, the activity statuses are determined based on the 'majority time' and 'priority time' criterion i.e. for the 'principal activity' under the US and UPSS, the 'majority time criterion' is used and for the 'subsidiary activity' under the UPSS, the 'priority time criterion' is used. In view of this, the US approach is also connotated as the UPS (usual principal status) approach. For the CWS and CDS approaches, due to the shorter spell of time period considered, only the 'priority criterion' is applied.

For the purpose of employment planning, it is important to focus on the 'growth' in the labour force. Discounting for the backlog of unemployed (i.e. the carry over figure of unemployed from one period to the next), unemployment results when the 'growth rate of labour force' is higher than the 'growth rate in employment'. The labour force in India has marginally declined from 469.2 million in 2004-05 to 468.8 million in 2009-10 (the two major rounds of NSSO for the EUS i.e. the 61st and the 66th rounds for which the data is currently available). Note that rounded without decimal, the number of persons in the labour force has roughly been the same i.e. 469 million during the above period. However, the number of persons unemployed has fallen from 11.3 million in 2005 to 9.8 million in 2010. As a result, the unemployment rate (i.e. unemployed expressed as a percentage of labour force) has decreased from 2.4 percent in 2005 to 2.1 percent in 2010.

Unemployment is thus a phenomenon when 'people who want to work do not find work at a given wage rate' due to lack of availability. It surfaces in many forms like: structural, frictional, cyclical, seasonal, etc. Structural unemployment exists when there are jobs available with people willing to work but are not qualified to do the job. It thus refers to a mismatch in skills caused by 'inadequacies in the educational system' and/or use of inappropriate technology like capital-intensive techniques. Frictional unemployment is caused in periods of economic change like closing of firms, changes in production techniques within the firm, etc. Cyclical unemployment is associated with a downturn in economic activity. Seasonal unemployment refers to fluctuations in the demand and supply conditions from time to time (e.g. post-rabi, pre-kharif times in agriculture). A type of unemployment common in agrarian economies is 'disguised unemployment' which refers to people being employed but with low productivity returns. Broadly, therefore, unemployment in India can be grouped into two types: (i) rural unemployment which is seasonal and disguised under-employment in nature; and (ii) urban unemployment which is structural in nature.

## 10.2.3 WFPR and LFPR

The WFPR (workforce participation rate) in a country is represented as the proportion of working population to total population. This is also therefore alternatively called as 'worker population ratio' (WPR). The LFPR (labour force participation rate), on the other hand, is defined as the section of 'working plus work-seeking population' in the age-group of 16-64 expressed as a percentage of the total population. It is usually expressed as the number of persons 'employed plus unemployed' per 1000 persons in the NSSO reports. Notice that these rates would differ depending on which class of workers we consider i.e. whether US or UPSS or CWS or CDS. For India, in 2015-16, the LFPR by UPS (i.e. usual principal status) classification, for 'total persons' [i.e. males and females combined] was 50.3. By gender, it was 75 percent for males and 24 percent for females i.e. a huge difference of more than 3 times for males than females. The WFPR for 'total persons' was 48 percent (72 percent for males and 22 percent for females). The unemployment rate was 5 percent for total (by gender, it was 9 percent for females and 4 percent for males). Thus, if the less than one-third of male's LFPR for women points out to social constraints faced by women of at least of a certain order (as there may be women who have voluntarily chosen not to work), the more than two-times the unemployment rate for women than men points out to 'labour market challenges' experienced by women. The disparity between males and females is indeed glaring for which policies to bridge the gender-gap is needed. Relatively, the LFPR for females is higher for the North Eastern and the Southern states and low for the Northern states.

**Check Your Progress 1** [answer within the space given in about 50-100 words]

1)  In agrarian economies, what is a specific feature of a 'worker' requiring to be taken into account for assessing the employment status?

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2) What are the four approaches on which the EUSs are conducted by NSSO? What is the rationale behind these approaches?

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3) How is the term 'labour force' defined? How is the 'unemployment rate' estimated?

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4) The 2004-05 labour force survey yielded the magnitude of employed and unemployed as 415 million and 13 million respectively. What is the unemployment rate?

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5) Given that the reference period is the same for both the US and UPSS approaches, what is the essential distinction between the two?

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6) Distinguish between LFPR and WFPR. How would you express the glaring differential in terms of LFPR and unemployment rates in India?

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7) State the difference between rural and urban unemployment in broad terms.

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## 10.3 EMPLOYMENT POLICIES

Given that the employment policies pursued should aim at achieving all types of employment required (i.e. unskilled daily wage employment, employment for semi-skilled and skilled workers, employment for higher skilled and educated workers at different levels), the employment policies followed in India since independence had a broad scope in their implementation. This vision is seen in the thrust of different employment policies and programmes pursued in India right from the initiation of the First Plan period (1951-56) onwards. The efforts of the first few plans were marked with the belief that targeting the overall economic growth rate would suffice to ensure the

generation of required employment at different levels. Thus, during the first two decades of 1950s and 1960s policies implemented were in the direction of efforts focusing on sectors with the potential to generate higher levels of employment. In other words, no specific effort to address the wage-employment needs of very poor households was implemented due to the expected percolation effect from the general or overall economic growth. However, in the late 1970s, with the initiation of the IRDP (Integrated Rural Development Programme) programme in 1978, specific efforts to assist the below poverty level household/persons, by wage-employment opportunities, were launched. In the subsequent decades, many specific employment generation programmes (e.g. TRYSEM, RLEGP, DPAP, etc.) were implemented, mainly as supply side response to combat poverty by generating wage-employment avenues. The programmes also aimed at skill development to enable the setting up of self-employment ventures. However, after more than 50 years of experience, with the situation of poor households further becoming acute (particularly after the implementation of economic reforms in 1991), it was realised that employment generation needs to be made a demand-driven effort to enable the potential workers to seek and obtain a minimum number of days of employment in a year. This intent was given the shape of an Act (NREGA) in 2005. We shall now take a brief look at the various policy initiatives made in this direction in two separate periods viz. 1950s to 2000/2002 and in the post-2000 years.

### 10.3.1 1950s to 2002

In the early 1950s, unemployment was recognised as a problem which can largely be taken care of by focusing on the achievement of faster economic growth. Particular attention was laid on promotion of labour intensive sectors like small scale industry. A close watch on the estimated magnitude of the backlog of unemployment was kept. For instance, by the end of second FYP (five year plan), 1957-62, the estimated unemployment was placed at 5 million with an expected annual addition of 1.5 to 2 million fresh entrants to the labour force. To meet the requirement of employment for this magnitude of persons, it was envisaged that a target of 5 percent annual growth rate in GDP would be adequate to generate employment to take care of both the backlog and the fresh addition to the labour force. In later years, to aid the process of developing the farming community, two special agencies viz. (i) the small farmers development agency (SFDA) and (ii) the marginal farmers and agricultural labour development agency (MFALDA) were established during the Fourth Plan (1969-74). But, despite the thrust for employment generation and achievement of targeted growth rates in GDP, India could achieve a growth rate of an average 3.5 percent through the 1960s and 1970s. While employment grew by an average of 2 percent per annum, the labour force grew faster at 2.5 percent. As a result, the number of unemployed rose to 10 million by 1973-74. In recognition of the required reorientation, the Fifth Plan (1974-79) introduced special anti-poverty and employment programmes. The two programmes/agencies of SFDA and MFALDA were merged into one comprehensive programme in the name of 'integrated rural development programme' (IRDP) in 1978. A 'national rural employment programme' (NREP) was launched in 1980 with the twin objectives of: (i)

providing wage income to rural poor; and (ii) creating rural infrastructure. This was followed in 1983 with the launch of another programme called the 'rural landless employment guarantee programme' (RLEGP) with the objective of providing 100 days of employment in selected backward areas in 1983. Though such programmes were able to generate substantial amount of 'person days of employment' during any one given year, it did not help to bring down the overall magnitude of unemployment in the country. As a result, the magnitude of unemployment continued to increase making the development strategy of the Seventh Plan (1985-90) to place employment at the centre of its development strategy. Notwithstanding all these thrusts and efforts, even though the decade of the 1980s experienced a relatively faster GDP average annual growth of 5.5 percent, the employment growth was lower at 1.8 percent. Thus, by the end of 1980s, the number of unemployed was estimated to have risen to 14.5 million and to a further 17 million by 1991-92.

A detailed assessment of the employment and unemployment trends was undertaken in the beginning of 1990s by especially factoring-in the likely impact of the process of economic liberalisation introduced in 1991. This assessment became the basis of the employment strategy of the Eighth Plan (1992-97). By taking into account both the openly unemployed plus the severely under-employed, and factoring-in an addition to the labour force of about 35 million during the years 1992-97 and another 36 million during 1997-2002, the Ninth Plan (1997-2002) set a target of achieving a 2.6 to 2.8 percent annual growth in employment. Set with a view to achieving the goal of 'employment for all' by 2002, the target was sought to be internalised in the plan strategy through efforts like: (i) overall and sectoral priorities; (ii) policies and programmes aimed at achieving spatial and sub-sectoral diversification of agriculture; (iii) wasteland development; (iv) support by policy framework for development of rural non-farm sector; (v) small and decentralised industrialised sector; (vi) faster growth of informal and services sectors; etc. Despite these efforts, although the economic growth measured by GDP showed impressive results (GDP growth accelerated to 6.7 percent during 1994-2000), employment growth slowed down from 2.7 percent achieved during 1983-93 to 1.1 percent during 1994-2000. In other words, the assumption that a higher growth rate will result in faster employment growth was not realised and the growth process began to be identified as one of jobless growth i.e. higher GDP growth with lower employment content. The growth was marked by an estimated decline in employment elasticity from 0.52 to 0.16.

## 10.3.2 Post-2002

After 20 years of its implementation, the IRDP was replaced by the Swarnajayanti Gram Swarojgar Yojana (SGSY) in 1999. As per evaluation reports of IRDP, the programme had led to an increase in income in most cases enabling nearly 15 percent of the assisted households to cross the poverty line income level. Despite this, it was realised a renewed effort is needed to mitigate the distress of day-to-day employment seekers in the country. This led to a major initiative of the post-2000 period by way of the

enactment of the National Rural Employment Guarantee Act (NREGA) in 2005 to guarantee work up to 100 days of employment in a year to every household in selected poorer districts of the country. A national commission was set up to examine the problems of enterprises in the unorganised, informal sector in 2004 and devise policies and programmes for strengthening the capacity of growth of this sector with high employment potential. Both these steps were a particularly important initiative since the bulk of the workforce is in the 'unorganised' or 'informal' sector of the economy and the critically poor, who belong to this sector, require assured employment on daily-wage basis.

The trends in employment in the post-2000 years is mixed. For instance, the estimates based on the 61st round of NSSO suggest an upturn in the growth of employment during 2000-05. The growth rate in employment is estimated to have been at 2.85 percent per annum over the period 2000-2005 (as against just over 1 percent during 1994-2000). However, employment situation fluctuates widely within a short term time frame. For this reason, it is important to study the same over longer time intervals which may be stated as 10+ years. Such an assessment over a long term frame has to be made over the different quinquennial rounds of NSSO as this is the only source which gives data on employment covering the entire economy (spanning over both the organised and the unorganised sectors of the economy). For this reason, data for 3 long term and 3 short term period, over the period 1983-2010, are presented in Table 10.1.

**Table 10.1: Growth Rate (%) in Employment and GDP**

| Period (Long/ Short) | Employment | GDP | EE |
|---|---|---|---|
| 1983-93 (Long) | 2.0 | 5.0 | 0.40 |
| 1994-2005 (Long) | 1.8 | 6.3 | 0.29 |
| 1999-2010 (Long) | 1.5 | 7.5 | 0.20 |
| 1988-93 (Short) | 2.4 | - | - |
| 1994-00 (Short) | 1.0 | - | - |
| 2005-10 (Short) | 0.2 | 9 | 0.02 |

**Source:** Papola & Sahu, 2012, p-26.

Such a long term assessment for the three sub-periods, juxtaposed with the corresponding growth rates in GDP, shows that the growth rate in GDP is inversely related to growth rate in employment over the long period of 1983-2010. Employment elasticity, measured as the ratio of growth rate in employment to that in GDP, has also consistently declined. The trend in this is supportive of the hypothesis of jobless growth in the Indian economy over

the period 1983-2010. The short-long term comparative profile indicates the sensitivity of growth rate to changes in the short term which averages out when data for long term is considered.

With some difference in its achievement from year-to-year, the results of NREGA's efforts indicate that the Act has succeeded in getting an average number of about 50 days to the participating households which is significantly lower than the maximum provision envisaged at 100 days. However, the programme has contributed to shooting up the average wages in the neighbouring areas of its implementation. The review of MGNREGA (its rechristened name since 2009) suggested many weaknesses like: (i) non-provision of work on demand; (ii) lack of transparency in calculating wages based on schedule of work; (iii) non-payment of minimum wages; (iv) non-payment of wages with the stipulated 15 days of work; (v) use of contractors in spite of prohibition; (vi) non-payment of employment allowance; (vii) non-provision of worksite facilities, etc. Cases of 'fudging' of muster rolls to 'sell' entitlements are also reported. Notwithstanding these instances, the programme has helped create many assets in the areas of: (i) water conservation; (ii) irrigation; (iii) road connectivity; (iv) land development; and 'others'. Of all these, water conservation works has accounted for more than '50 percent' of physical achievements over the five year period of 2007-11. It can therefore be conceded that given its scale of operations amidst poor management capability of village councils (who are supposed to be responsible for its implementation), MGNREGA programmes are better implemented than similar programmes in the past. In 2011, the National Rural Livelihoods Mission (NRLM) was launched as a restructured version of the SGSY.

## 10.4 INFORMAL ECONOMY

The account on employment generation provided in Section 10.3 above is largely to cater to the wage employment needs of both the rural and the urban poor. They refer to merely the quantitative dimension of employment generation problem. There is also the qualitative dimension in which respect the country has far to go to reach what is described as a 'decent work' level. A distinction can be made in this respect with the term 'wages' as used in the wage employment programmes for 'casual workers' and 'salary' which is given in an assured manner for 'regular workers'. This also brings into picture the dichotomy that exists in the labour markets of agrarian and developing countries like India. The former, i.e., the wage earners subsist in a sector popularly called as the 'informal sector'. Their employment conditions are not governed by any Act or legislation which protects their earnings in times of sickness or post-employment years i.e. old age. On the other hand, a small proportion of workers in the complementary formal or organised sector is covered by at least one such legislative provision and in many cases more than one. The organised or the formal sector of workers is defined as 'those workers working either in public sector organisations or private sector organisations employing more than 10 workers'. As the economy develops, either more and more of informal sector workers can be absorbed in the formal sector, or, the economy may so expand that not only the number of

informal sector workers would increase, but even some of the workers in the formal sector might be classified as 'informal sector workers'. The latter refers to the phenomenon of hiring workers in the formal sector on an informal basis by way of contracting out certain non-core works like cleaning, security, maintenance services, etc. The process has come to be referred to as 'informalisation' of the economy. The proportion of 'formal to informal' (or 'organised to unorganised' as they are called in India) was 7 : 93 for a long time in India. Of late, with the process of shifting in the status from informal to formal, and also on the reverse, estimates of formal to informal workers are placed at 16 : 84. Another dominant segment of workers in India is the 'self-employed workers' who are a major part of the informal workforce. The status of self-employed workers may be considered as better than 'casual labour' but inferior to 'regular workers' or 'employees'. A large number of self-employed workers in India are engaged in own-account farming or small businesses in the non-farm sector. Their condition is prone to change even in the short term, i.e., some of the self-employed workers may be earning so little that they may be forced to move out to take up casual jobs on daily wage basis. The changing structure of the three type of workers i.e. self-employed, regular employees and casual labour over the period 1973-2010 reveals the following: (i) the proportion of regular employees has only marginally increased from 15.4 to 16.6 over the 38 year period (meriting to be regarded as having been in a 'stagnant state'); (ii) the proportion of 'casual labour' has increased from 23 percent to 33 percent over the corresponding period (a phenomenon described as increasing informalisation of the economy); and (iii) the proportion of 'self employed' has come down from 61 percent to 51 percent. The increase (by 10 percent) of the share of 'casual workers' to a corresponding decline of the same proportion by the 'self-employed' workers has been suggested to indicate 'the moving out of own-account workers (another name for self-employed workers) due to low earnings to join the numbers of casual workers'. In other words, this is indicative of a 'deterioration in the quality of employment in aggregate'.

### 10.4.1 Social Security for Unorganised Workers

Following the recommendation of the National Commission for Enterprises in the Unorganised Sector (NCEUS), a social security Act by the name 'Unorganised Workers Social Security Act' was passed in 2008. The Act stipulates the formulation of suitable welfare schemes for unorganised workers on matters relating to: (i) life and disability cover; (ii) health and maternity benefits; (iii) old age protection; and (iv) any other benefit as may be determined by the central government through the National Social Security Board. Many schemes have since been formulated under these broad heads. These are: (i) Indira Gandhi National Old Age Pension Scheme; (ii) National Family Benefit Scheme; (iii) Janani Suraksha Yojana; (iv) Aam Admi Bima Yojana; (v) Rashtriya Swasthya Bima Yojana; (vi) Janashree Bima Yojna; (vii) Atal Pension Yojana; and (viii) Pradhan Mantri Jeevan Bima Yojana.

**Check Your Progress 2** [answer within the space given in about 50-100 words]

1) What was the basic approach followed in the first two FYPs to address the employment situation in India?

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2) In which year special employment generation and anti-poverty programmes were implemented? What was the motivation for this step?

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3) What special efforts were made in the 1990s to tackle the problem of employment and unemployment? Did it bear out in the realised outcomes?

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4) What were the two important initiatives taken during the post-2000 years to mark a departure in the efforts of the government?

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5) Over a longer term time frame, how would you describe as the performance of employment planning in India?

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6) Over a longer time frame of 1973-2010, what has been the trend in respect of 'informalisation' of Indian economy?

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## 10.5 LET US SUM UP

The problem of employment in India is associated with a large number of unskilled workers who depend on their getting daily wage jobs of casual nature. Such jobs are informal in nature and are available for only some days in a year. To meet their subsistence requirement, the government has implemented many wage employment programmes. Between 1950-2000, these programmes have succeeded in shifting up the BPL status of 15 percent of assisted households. Implemented as supply side response, these were recognised to have made limited impact and to redress this situation, in 2005, a demand driven Act of NREGA was enacted. The programmes implemented under this Act have contributed to ensuring the availability of jobs by a certain number which is in fact far lower than the 100 days of employment guaranteed by the Act. Despite this, and many other gaps identified in the implementation of the Act, the programmes under the Act are credited to have given a sense of stability besides pushing up the average wage levels in the areas of its country-wide implementation. The government has also implemented several social security schemes to assist the workers in the unorganised or informal sector who are vulnerable to employment and income insecurities. The unit has discussed the problem of unemployment and underemployment typical in rural areas. In urban areas the problem is one of structural unemployment which relates to a mismatch in skills.

## 10.6 SOME USEFUL BOOKS AND REFERENCES FOR FURTHER READING

1) Papola, T. S. (2008). Employment in India's Development Strategy, in S K Bhaumik (Ed.), Reforming Indian Agriculture: Towards Employment Generation and Poverty Alteration, Sage, New Delhi.

2) Papola, T. S. (2008). Employment Challenge and Strategies in India, ILO, Asia-Pacific Working Paper Series, New Delhi. Pp 2-10.

3) Papola and Sahu (2012). Growth and Structure of Employment in India: Long Term and Post-Reform Performance and the Emerging Challenge, ISID, New Delhi.

## 10.7 ANSWERS OR HINTS TO CHECK YOUR PROGRESS EXERCISES

**Check Your Progress 1**

1) Since their work is not of a regular nature, their day-to-day disposition needs to be considered.

2) US, UPSS, CWS and CDS. To capture the long term status of employment as well as that of the short term.

3) Labour force is defined as 'employed plus unemployed'. Unemployment rate is then calculated as a percentage of 'unemployed to the labour force'.

4) [13/{415 + 13}]*100 = 3 percent.

5) For the US/UPS approach, the 'majority time criterion' is applied. For the UPSS approach, both the principal activity based on the 'majority time' criterion and the subsidiary activity based on 'priority time' criterion are applied.

6) The denominator for both is total population. For the numerator, for WFPR it is the number of workers and for LFPR it is the labour force.

7) Rural unemployment is disguised or under-employment due to seasonal factors while urban unemployment is structural due to a mismatch in skills.

**Check Your Progress 2**

1) The basic approach was to set a growth target with the expectation that the benefits of growth would automatically percolate downwards in employment generation.

2) In 1978 by way of IRDP. It was realised that a special effort focused on poor families is required as the trickle down effect anticipated was not really working.

3) Set with the objective of achieving the goal of 'employment for all' by 2002, the effort was to internalise the target in the plan strategy.

However, while the targeted growth rate in employment is 2.6 to 2.8 percent, the actual achievement is 1.1 percent during 1994-2000.

4) Setting up of NCEUS and the enactment of NREGA (10.3.2).

5) Comparative profile of employment and GDP growth rates over 1983-2010 reveals that the two growth profiles are inversely related.

6) The situation has significantly changed from 93 : 7 to 84 : 16. Although this suggests greater formalisation, in reality there is an increase in the proportion of 'casual workers' from 23 to 33 percent.