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## ILO Asia-Pacific Working Paper Series

# The Indian Labour Market: An Overview

Arup Mitra

May 2008

Subregional Office for South Asia, New Delhi

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First published 2008

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**The Indian Labour Market: An Overview**  
Subregional Office New Delhi 2008

ISBN: 978-92-2-120886-0 (print)

ISBN: 978-92-2-120887-7 (web pdf)

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Printed in India

## Executive Summary

The present study analyses the labour market situation in India over the last two decades. Given the growth profile, which has been quite robust in recent years, one pertinent question is whether India has experienced pro-poor growth. The paper examines a wide range of indicators, including worker-population ratio, sectoral shifts in the value added composition and occupational structure, growth in value added and employment, employment status in terms of self-employment, regular wage employment and casual employment, unemployment rates, formal-informal division of employment, employment elasticity and labour productivity, and finally, the head count measure of poverty. The paper argues that there was a missing link in terms of employment between the rise in economic growth and the reduction in poverty that took place during the 1990s. Though researchers believed that this was an outcome of rising income and other positive changes taking place in the economy, the empirical evidence is not convincing. In the present decade, employment growth has picked up, but economic growth and employment generation both seem to be more beneficial to those located in the upper income strata than the poor. The faster employment growth in this decade is partly because of the revival of agriculture employment, which had decelerated considerably during the 1990s. The other feature is that some of the dynamic sectors have continued to grow rapidly, generating employment opportunities. However, most of the activities in these sectors are less likely to absorb the poor who are mostly unskilled, and hence the direct effects of growth on poverty are still not spectacular. All this is compatible with the fact that the extent of decline in poverty after 1993-94 has been much less than the extent of decline between 1983 and 1993-94. The 'employment problem' cannot be gauged in terms of open unemployment rate. It is rather the relative size of the low productivity informal sector that can throw light on the gravity of this problem. Even within the organized or formal sector, informal employment is on the rise, reducing the bargaining power of the labour considerably. Surprisingly, the composition of the workforce as per the status of employment shows a major shift in favour of self-employment in 2004-05. Besides, with the exception of 2004-05, the long term trend shows that casualization is on the rise in the case of rural males, rural females and urban males. And this has been by and large accompanied by a declining trend in regular wage employment among rural and urban males. These findings are unlikely to confirm that the Indian economy has been experiencing pro-poor growth.



# Foreword

The paper by Arup Mitra is an attempt to document and analyse the trends in economic growth and its relationship with employment levels during the last two decades. Since the 1980s, India's economy has been expanding at more than 5 per cent per annum. But the robust economic growth has not been translated into employment growth and the poverty level continues to decline at a very slow pace. Therefore, it seems that the economic growth has not been generating pro-poor employment opportunities per se. While there has been rapid growth in some dynamic sectors, which have generated employment opportunities, those sectors are restricted to specific skills obtained by only a few.

This paper discusses the economic growth, employment, and the poverty scenario in the last two decades. The paper examines the trends in work participation rates for women and men in rural and urban areas. Indeed, as the paper finds work participation rates have increased in the recent years, after a dip in mid 90s reverting to their early 90s level.

Over the years in India, the value added composition has shifted away from agriculture, but the structure of the workforce is still dominated by agriculture. The shift in employment away from agriculture has been marginal. However, the shift has not been towards manufacturing, it has been largely towards the services sector. It has been observed that there has been a major shift towards self-employment during 2004-05, particularly among women. The late 1990s witnessed an increase in casualization of the workforce. The fall in casual workers in the recent period, along with the increase in self-employment, poses the question whether the shift towards self-employment is for better remuneration or whether it is a compulsion to engage oneself in any kind of activity in the absence of wage work. It has been observed that own account workers comprise the majority of the informal workers in rural areas. The urban areas, however, show an almost equal distribution of workers across own account enterprises and establishments. The paper also probes the relationship between employment generation and poverty reduction in India. Economic growth alone cannot reduce the poverty level unless it is accompanied by growth in employment for all.

This paper is part of a series of studies that have been launched by the ILO, Delhi office, coordinated by Sukti Dasgupta, Employment and Labour Market Policy Specialist, to analyse and understand the current employment challenges in India.

**Leyla Tegmo-Reddy**  
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International Labour Organization



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## **Acknowledgements**

The author is greatly indebted to Dr Sukti Dasgupta for her invaluable comments and guidance. The author also expresses thanks to Dr Manas Bhattacharya and Dr Rizwan Islam for their profound suggestions.

## 1. Introduction

The concept of pro-poor growth envisages acceleration in economic growth with concomitant growth in employment opportunities for the poor. This can be achieved when productivity growth, employment growth, and rise in real wages take place simultaneously at a rapid pace.

India's economic growth over the last two decades has been quite robust - expanding at more than 5 per cent per annum. In recent years, the growth rate has reached 7-8 per cent. Employment, on the other hand, has not grown so fast. The employment growth rate decelerated from 2.04 per cent per annum between 1983 and 1993-94 to 0.98 per cent per annum between 1993-94 and 1999-2000. Employment in the organized manufacturing<sup>1</sup> sector grew at 1.20 per cent and 0.53 per cent per annum over the 1980s and 1990s, respectively. The decline in organized sector employment is partly due to the downsizing of the public sector. Unorganized sector employment growth also witnessed a deceleration from 2.19 per cent per annum during the 1980s to around 1 per cent in the 1990s.

In this backdrop of 'jobless growth' in the Indian economy in the last few years, creating an environment of 'pro-poor' growth becomes an even greater challenge. In recent years (between 1999-2000 and 2004-05), employment growth rate has picked up. The 61st round of the National Sample Survey Organization (NSSO) shows that employment growth rose considerably (to nearly 3 per cent per annum) in the period from 1999-2000 to 2004-05, though the extent of decline in poverty has been much slower after 1993, compared with what was experienced from 1983 to 1993-94. This indicates that in recent years, economic growth and employment generation have both been more beneficial to those located in the upper income strata of society than the poor. In other words, in the present situation of economic growth, employment is being generated more for the educated labour force than for the poor with lower levels of human capital. All this is likely to have resulted in increasing inequality.

It is in this context that the present paper focuses on economic growth, employment, and the poverty scenario in the last two decades or so. The organization of the paper is as follows:

- Section 2 deals with the worker-population ratio;
- Section 3 focuses on sectoral shifts and growth in value added and employment;
- Section 4 examines the trends in the unemployment rate;
- Section 5 studies the composition of employment in terms of formal-informal sectors;
- Section 6 analyses employment elasticity and labour productivity;
- Section 7 looks at work and poverty, and
- Section 8 summarizes the main findings of the paper.

## 2. Worker-population ratio

The worker-population ratio is a broad indicator of availability of job opportunities, though the impact of residual absorption of labour, or the phenomenon of working poor, is also included in the ratio, and not just the effect of demand-side factors. The aggregate work participation rate (usual principal status) for both sexes in all areas (rural plus urban combined) remained by and large stable, if we compare

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<sup>1</sup> Organized or registered manufacturing units include those that are registered under the Factories Act, 1948.

1983 and 1993-94. However, there was a dip in 1987-88 and thereafter in 1999-2000. The rate reached an unprecedented magnitude of 38 per cent in 2004-05 (Table 1).

The work participation rate among males (usual principal status) shows that around half of the male population has been working. The work participation rate increased by one percentage point between 1983 and 1993-94 (excluding 1987-88 because it was a drought year) and subsequently dropped to 52 per cent in 1999-2000 before it was restored in 2004-05 at marginally above the 1993-94 figure.

Among the female population, however, only an average one-fifth has been working. The principal status work participation rate dropped by about one percentage point in the period from 1993-94 to 1999-2000 after remaining a little below 22 per cent between 1983 and 1987-88. In 2004-05, the pre-1990s figure seems to have been restored.

While the subsidiary status work participation rate among males is minuscule, it is of considerable magnitude among females; it fell perceptibly in 1999-2000 as compared with 1993-94, but seemed to be reviving in 2004-05.

**Table 1 : Usual status work participation rate**

	1983		1987-88		1993-94		1999-2000		2004-05	
	PS	SS	PS	SS	PS	SS	PS	SS	PS	SS
Rural males	52.8	1.9	51.7	2.2	53.8	1.5	52.2	0.9	53.5	1.1
Rural females	24.8	9.2	24.5	7.8	23.4	9.4	23.1	6.8	24.2	8.5
Rural persons	39.1	5.4	38.5	4.9	39.0	5.4	38.0	3.7	39.1	4.8
Urban males	50.0	1.2	49.6	1.0	51.3	0.8	51.3	0.5	54.1	0.8
Urban females	12.0	3.1	11.8	3.4	12.1	3.4	11.7	2.2	13.5	3.1
Urban persons	32.0	2.0	31.5	2.2	32.7	2.0	32.4	1.3	34.6	1.9
All areas males	52.1	1.7	51.2	1.9	53.2	1.3	52.0	0.7	53.6	1.1
All areas females	21.8	7.8	21.7	6.8	20.6	8.0	20.3	5.6	21.5	7.2
All areas persons	37.4	4.6	36.9	4.3	37.5	4.5	36.5	3.2	38.0	4.0

*Notes: PS: Principal status workers, SS: Subsidiary status workers, UPSS: Usual principal-cum-subsidiary status workers*

*The usual activity status relates to the activity status of a person during the reference period of 365 days preceding the date of survey. The activity status on which a person spent relatively longer time (i.e., major time criterion) during the 365 days preceding the date of survey is considered the principal activity status of the person. If a person spent his major time working in an economic activity, he is said to be a worker on the basis of principal status. If he pursued some economic activity spending only minor time during the reference period of 365 days preceding the date of survey, he is said to be a subsidiary status worker.*

*Source: Employment and Unemployment Situation in India 1999-2000, Part I, National Sample Survey Organisation, Report No. 458, Government of India, May 2001. Employment and Unemployment Situation in India 2004-05, Part I, September 2006*

Among rural males, the principal status work participation rate showed an increase of around one percentage point between 1983 and 1993-94 (ignoring 1987-88) and, thereafter, a marginal fall of around 0.6 percentage point in 1999-2000 (Table 1). In 2004-05, however, the rate has improved perceptibly. Among rural females, on the other hand, the principal status work participation rate fell by slightly more than one percentage point between 1983 and 1993-94 and remained more or less constant in 1999-2000. However, it improved in 2004-05.

In urban areas, the principal status work participation rate remained more or less unchanged among females all through the 1980s and the 1990s (ignoring a marginal fall in 1999-2000), whereas among males, it improved in 1993-94, compared with 1987-88, and remained stable till 1999-2000. Thereafter, in 2004-05, both the male and female specific rates shot up.

The subsidiary status work participation rate has been negligible among both rural and urban males, particularly during the 1990s. On the other hand, among females, it dropped in both rural and urban areas in 1999-2000, but seemed to be reviving in 2004-05.

The age specific participation rates would provide a more realistic picture of the job market. In the younger age groups, any decline in the participation rate may actually reflect a desirable change as it might have resulted from a rise in the school enrolment ratio. Table 2 shows that in the rural areas, while there was no significant decline in the work participation (principal status) rate for males in the working age groups between 1993-94 and 1999-2000, the rate declined in the 50-plus age group.

Among rural females, the principal status work participation rate actually increased in most of the age groups, except in the age group below 19 years; the fall is attributed to rise in school enrolment. The subsidiary status work participation rate, which remained high for rural females all through, witnessed a sharp decline between 1993-94 and 1999-2000. There seems to be a substitution of women workers for male workers in full-time jobs in the rural labour market, which possibly caused a decline in their subsidiary status work participation rate and a rise in their principal status work participation rate in some of the working age brackets, and the brunt of this substitution was borne mainly by the elderly male workers, i.e., 50 years and above.

In 2004-05, most of the younger age brackets (up to 19 years) experienced a major decline in the male principal status work participation rate in rural areas, but this has been mainly because of a rise in the school enrolment ratio. However, in some of the working age brackets (e.g., 25-29 years), the increase is substantial. Also, in the relatively higher age brackets (50 years and above), the rate improved in comparison to 1999-2000, though not in relation to 1993-94. Among rural females, the decline in the principal status work participation rate in 2004-05 is evident not only in the school-going age groups, but also in some of the working age brackets such as 20-24 years and 25-29 years. However, the rise is evident in the relatively higher age brackets, particularly 35 years and onwards. Based on the 1999-2000 results, there was a popular view that higher earnings of the male led to a decline in the work participation of his spouse and older persons in his family. However, if that were true, the revival of the work participation rate in 2004-05 would not have occurred, and a similar pattern would have prevailed during the recent years as well. The deterioration in the job market outcomes in the 1990s cannot be ruled out.

Table 2 : Age specific work participation rates in rural areas (%)

Age group (in years)	Year*	Male principal status	Male subsidiary status	Female principal status	Female subsidiary status
5-9	3	0.2	0.1	0.1	0.2
	2	0.5	0.1	0.6	0.1
	1	0.9	0.2	1.1	0.3
10-14	3	5.4	1.4	4.9	1.5
	2	8.2	0.9	7.4	2.2
	1	11.2	2.6	10.4	3.7
15-19	3	45.3	4.4	22.2	9.7
	2	47.5	2.8	23.4	6.0
	1	52.3	5.4	26.4	10.4
20-24	3	82.0	2.9	28.4	12.6
	2	82.3	2.1	31.0	9.9
	1	82.4	3.5	31.8	13.8
25-29	3	95.6	1.0	36.7	14.6
	2	94.2	0.8	37.3	11.8
	1	94.7	1.0	35.4	17.1
30-34	3	97.7	0.4	42.4	16.0
	2	97.4	0.5	42.2	13.3
	1	98.0	0.3	40.7	17.8
35-39	3	98.6	0.3	48.2	15.7
	2	98.1	0.3	45.3	12.6
	1	98.8	0.1	43.5	17.3
40-44	3	97.9	1.4	47.5	15.0
	2	98.1	0.2	46.2	12.4
	1	98.5	0.2	44.0	16.6
45-49	3	97.7	0.4	48.3	13.2
	2	97.7	0.3	45.0	11.6
	1	98.0	0.3	43.8	15.6
50-54	3	95.8	0.5	43.6	12.5
	2	94.9	0.4	39.9	11.6
	1	96.5	0.5	40.7	13.5
55-59	3	92.4	0.6	39.4	11.5
	2	91.9	1.0	35.1	9.9
	1	93.6	0.6	33.7	13.3
60 and above	3	63.0	1.4	19.7	5.6
	2	62.2	1.7	17.4	4.4
	1	68.3	1.6	17.2	6.9
All Ages	3	53.5	1.1	24.2	8.5
	2	52.2	0.9	23.1	6.8
	1	53.8	1.5	23.4	9.4

Notes

See also Table 1

\*1: 1993-94; 2: 1999-2000; 3: 2004-05

Source: See Table 1

In urban areas, in the 1990s, some of the working age groups of male principal status workers reported a decline in work participation rates, as did the age groups above 55 years (Table 3). In 2004-05, the rate improved in some of the relatively younger working age brackets (20-24, 25-29 and 30-34 years), not only in relation to 1999-2000, but also to 1993-94. However, in the relatively higher age brackets, the increase is largely in comparison to 1999-2000. Among women as well, in a large number of working age groups (25-29, 30-34, 40 years and above), there was a decline in the principal status work participation rate during the 1990s. All this is indicative of shrinking full-time work opportunities in the urban labour market during the 1990s. However, in 2004-05, a number of working age brackets (20-24, 25-29, 30-34, 35-39 and 40-44 years) registered an improvement in the work participation rate even in relation to 1993-94. This again tends to refute the theory that the female work participation rate is sensitive to its male counterpart - a view that is valid in economies with very high income levels. That both male and female participation rates improved in several working age brackets in 2004-05 is again suggestive of increasing employment opportunities for the educated workforce.

**Table 3 : Age specific work participation rate in urban areas (%)**

Age group (in years)	Year*	Male principal status	Male subsidiary status	Female principal status	Female subsidiary status
5-9	3	0.2	0.0	0.1	0.2
	2	0.3	0.0	0.1	0.1
	1	0.4	0.1	0.3	0.2
10-14	3	4.4	0.4	2.4	0.9
	2	4.6	0.3	2.8	1.8
	1	5.9	0.7	3.5	1.0
15-19	3	31.4	2.1	9.2	3.6
	2	30.3	1.1	8.7	1.8
	1	33.7	1.9	9.4	2.9
20-24	3	66.2	2.2	15.5	4.6
	2	64.4	1.4	13.0	2.5
	1	65.4	2.0	13.6	4.4
25-29	3	90.0	0.9	18.6	4.3
	2	87.8	0.5	16.1	3.3
	1	89.2	1.2	17.5	4.9
30-34	3	96.5	1.4	23.6	5.4
	2	95.8	0.2	19.8	3.7
	1	96.1	0.3	20.8	6.4
35-39	3	97.5	2.2	26.5	6.3
	2	97.3	0.2	23.5	5.0
	1	98.2	0.1	23.3	6.8
40-44	3	97.7	0.3	26.2	5.0
	2	97.3	0.1	24.2	4.1
	1	98.0	0.1	25.7	6.3

45-49	3	96.5	0.3	22.7	5.0
	2	96.8	0.1	23.4	3.3
	1	97.1	0.2	25.3	6.4
50-54	3	92.5	0.6	22.4	3.4
	2	93.3	0.2	22.5	3.7
	1	94.1	0.1	24.0	4.6
55-59	3	81.9	1.1	19.2	2.6
	2	80.3	0.6	18.1	2.6
	1	84.5	0.1	18.5	4.1
60 and above	3	35.5	1.1	8.6	1.4
	2	38.6	1.6	8.2	1.2
	1	42.9	1.3	9.1	2.2
All ages	3	54.1	0.8	13.5	3.1
	2	51.3	0.5	11.7	2.2
	1	51.3	0.8	12.1	3.4

*Notes*

\* See Table 2

Source: See Table 1

### 3. Sectoral shifts and growth in value added and employment

The broad patterns of changes in sectoral composition of value added in India over the last two decades are examined in the light of the objective of attaining pro-poor growth. While, over the years, the value added composition has changed away from agriculture, the structure of the workforce is still dominated by agriculture. The share of agriculture and allied activities in total GDP dropped from 42 per cent to around 26 per cent over the 20-year period, 1981-2001, and it decelerated further to around 23 per cent in 2004-05. Surprisingly, the share of manufacturing, which was only one-fourth of the GDP in the 1990s declined further to around 24 per cent in 2004-05 (Table 4). On the other hand, the share of trade, hotels and transport, storage, and communication increased by almost seven percentage points over the last 25 years. In terms of growth rate also, these activities, along with financing, real estate and business services, have been increasing very rapidly over the years.

The shift in employment from agriculture during the period has been marginal from 68 per cent in 1983 to 60 per cent in 1999-2000. It decelerated further in 2004-05 to around 56 per cent (Table 5). The shift away from agriculture, however, has not led to significant increases in the manufacturing share of employment. The share of manufacturing employment increased only marginally from 11.24 per cent in 1983 to 12.09 per cent in 1999-2000 and 12.20 per cent in 2004-05. Instead, even at low levels of per capita income, the share of services in employment and value addition has increased in India. The share of services (inclusive of electricity, gas, and construction) increased from 21 per cent to around 30 per cent over the same period. This pattern of growth, which is not peculiar to India, has underlined the change in the development process of present-day developing countries as compared to the past. But the early developers witnessed a structural change where there was a more

or less clear shift from agriculture to industry to services. The shift in India is away from agriculture, but more towards services than manufacturing.

**Table 4 : Percentage share and annual rate of growth of sectors in value added (1993-94 prices)**

Year	Agriculture and allied activities and mining	Manufacturing, utilities, and construction	Trade, transport, storage, and communication	Financing, insurance, real estate, etc.	Public administration, defence and other services
<b>Percentage share</b>					
1980-81	41.8	21.6	18.4	6.5	11.65
1985-86	38.6	22.5	18.98	8.0	11.9
1990-91	34.9	24.5	18.73	9.67	12.18
1995-96	30.6	25.5	20.9	11.4	11.6
2000-01	26.55	25.0	22.35	12.57	13.54
2004-05	22.97	23.81	25.49	13.39	14.34
<b>Rate of growth per annum</b>					
1980-81- 1985-86	3.35	5.79	5.57	9.05	5.41
1985-86-1990-91	3.98	7.66	5.71	9.76	6.40
1990-91-1995-96	2.57	6.00	7.43	8.57	4.24
1995-96-2000-01	2.83	5.29	6.98	7.55	8.76
2000-01-2004-05	2.55	6.37	9.73	7.0	5.41

*Notes*

*Growth rates are point-to-point estimates. The first six rows of figures in the table give the percentage shares, while the last five rows give the rate of growth per annum for different sectors/activities.*

*Source: Growth rates are computed from figures based on National Accounts Statistics, Central Statistical Organization, cited in the Economic Survey 2005-06, Government of India*

**Table 5 : Percentage distribution of all workers (UPSS)**

Activity	1983	1993-94	1999-2000	2004-05
Agriculture and allied activities	68.45	63.45	59.84	56.67
Mining and quarrying	0.58	0.72	0.57	0.57
Manufacturing	11.24	11.35	12.09	12.20
Electricity, gas, etc.	0.28	0.36	0.32	0.27
Construction	2.24	3.12	4.44	5.66
Trade, hotel, etc.	6.35	7.42	9.4	10.79
Transport, etc.	2.44	2.76	3.7	4.02
Financial services	0.56	0.94	1.27	1.68
Community, social and personal services	7.86	9.37	8.36	8.13
Total million (100)	302.76	374.45	397	460.43

*Source: Planning Commission estimate based on National Sample Survey data, cited in Economic Survey 2001-2002, Government of India, and Employment and Unemployment Situation in India 2004-05 (Part I), NSS 61st Round, Report No. 515 (61/10/I), Government of India, September 2006*



The employment growth in terms of usual principal-cum-subsidary status workers decelerated to 0.98 per cent per annum during 1993-94 through 1999-2000, compared to 2.04 per cent per annum between 1983 and 1993-94 (Table 6).<sup>2</sup> Activities such as construction, trade, and transport registered an increase in the growth rate of employment in the 1990s, compared to the 1980s. In manufacturing, on the other hand, the growth rate fell, even though marginally, in the second sub-period compared to the first. Based on the male and female population growth rate experienced during the decade, 1991-2001, in rural and urban areas, all four categories-rural male, rural female, urban male and urban female populations-have been projected for the year, 2004-05. Applying the work participation rate (usual principal and subsidiary status), as given by the NSS 61st round results, to these figures, the total employment figures have been worked out for 2004-05. The total employment growth picked up to a level of 2.96 per cent per annum between 1999-2000 and 2004-05. It is evident that some of the activities that grew rapidly during the first five years of the 21st century are construction, trade, hotels, transport, storage, and communication, financing, real estate, and business services. The employment growth in agriculture picked up and this seems to have raised the overall growth in employment in recent years. In fact, much of the decline in the employment growth rate during the 1990s, as compared with the 1980s, was also caused by the major decline in employment in agriculture. Now, the revival seems to be induced by this sector. The manufacturing employment growth rate has also increased by around one percentage point during the same period as compared with the 1990s.

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<sup>2</sup> As far as the rural-urban differentials in the workforce growth are concerned, urban India recorded a growth rate of 2.27 per cent per annum between 1993-94 and 1999-2000, which was lower than what was experienced (3.27 per cent per annum) in the previous period, 1983-84 to 1993-94. Population growth in urban India has been higher than employment growth during the 1990s (population growth is estimated at 3.05 per cent per annum between 1 January 1994 and 1 January 2000, as per Sundaram (2001), and 2.71 per cent per annum between 1991 and 2001, as per the population census). Employment growth in the rural areas also decelerated considerably from 1.75 per cent per annum in the first sub-period to 0.66 per cent per annum in the second sub-period. Population growth was recorded at 1.51 per cent per annum between 1994 and 2000, as per Sundaram (2001), and 1.65 per cent per annum between 1991 and 2001, as per the population census in the rural areas, and it exceeded the employment growth rate over the same period.

The employment growth rate in the manufacturing sector dropped, though marginally, to 1.78 per cent and 1.83 per cent per annum in rural and urban India, respectively, in the 1990s, compared to a growth rate of 2.14 per cent and 2.21 per cent per annum between 1983 and 1993-94. In urban India, several tertiary activities such as trade, transport, and finance recorded acceleration in the employment growth rate, though this has not been witnessed in the case of rural areas, except in transport and construction. The category of community, social, and personal services, which comprises public administration, experienced a major decline in growth rate in both rural and urban India in the 1990s, compared with the 1980s. In addition to the decline in agricultural employment, the non-agricultural employment growth rate, too, dropped in both rural and urban areas in the 1990s, compared with the 1980s.

From economic census data, the deceleration in the growth rate in the 1990s, compared with the 1980s, is again evident in both rural and urban areas. The rural agricultural employment growth rate fell to 4.71 per cent per annum during 1990-98 from 5.63 per cent per annum during 1980-90. The urban non-agriculture employment growth rate dropped to 1.33 per cent per annum in the 1990s from 2.81 per cent per annum during the 1980s. Also, from the decennial population censuses, it may be noted that the growth of main workers decelerated significantly from 2.34 per cent per annum during the 1980s to 0.81 per cent in the 1990s (Economic India Info-Services). However, the population census data throws up a picture that is quite different from that shown by the economic census data. While the urban areas reported a growth rate of 2.66 per cent per annum in terms of the main workers during 1991-2001, the rural areas revealed a picture of pure stagnancy. On the other hand, the economic census data show a brighter picture for the rural areas compared with the urban areas in the 1990s.

Table 6 : Rate of growth of workers (UPSS): 1983-1993-94, 1993-94-1999-2000 and 1999-2000-2004-05 (% per annum)

Activity	1983-1993-94	1993-94-1999-2000	1999-2000-2004-05
Agriculture and allied activities	1.38	-0.15	1.892
Mining and quarrying	4.16	-2.85	2.857
Manufacturing	2.14	2.05	3.157
Electricity, gas, etc.	4.5	-0.88	-0.544
Construction	5.32	7.09	7.836
Trade, hotels, etc.	3.57	5.04	5.734
Transport, etc.	3.24	6.04	4.629
Financial services	7.18	6.20	8.594
Community, social and personal services	2.90	0.55	2.426
Total workers	2.04	0.98	2.964

*Notes*

The first two columns of growth rates are taken from the Economic Survey 2001-02, citing Planning Commission estimates. Growth rates for 1999-2000-2004-05 are calculated on the basis of projected population from the census data to which the NSS 61st round work participation rates have been applied. Source: Economic Survey 2001-02 and Employment and Unemployment Situation in India 2004-05, Part I; NSS 61st Round, Report No. 515 (61/10/I), Government of India, September 2006

If job opportunities tend to grow at a sluggish rate in urban areas, they have a dampening effect on rural-urban migration flow, notwithstanding the ability of the urban informal sector to residually absorb a large chunk of the workforce. And if agriculture is not in a position to generate gainful employment, the only sector that remains as a last resort for rural job seekers is the rural non-farm sector. It may, therefore, be interesting to examine the employment structure separately in rural and urban areas for male and female workers. The percentage distribution of usual status male workforce (principal plus subsidiary) across various activities in the rural areas shows only a marginal rise of 0.3 percentage point in the case of manufacturing between 1993-94 and 1999-2000 (Table 7). In the case of urban male workers, the share actually dropped from 23.5 per cent to 22.4 per cent during the same period. However, a slight improvement is noticed in 2004-05 in comparison to 1999-2000. Among rural females, the share of manufacturing increased by 0.6 percentage point; among urban females, it remained unchanged between 1993-94 and 1999-2000. A perceptible rise, particularly in the case of urban female workers, is evident for 2004-05 (Table 7).

The share of trade, hotels, etc., in total male employment increased from 21.9 per cent to 29.4 per cent (and from 10 per cent to 16.9 per cent in the case of females) in urban areas, accompanied by an increase in the growth rates of both male and female workers in this activity in the 1990s vis-à-vis the 1980s. In the rural areas, too, the relative size of trade, hotels, etc., in employing the male workforce increased from 5.5 per cent to 6.8 per cent, but this is despite a fall in the growth rate of male workers in the second period compared with the first. The share of the total tertiary sector rose

from 14.7 per cent in 1993-94 to 18 per cent in 2004-05 in the case of rural male workers. The corresponding rise among urban males was modest over the same period (from 58 per cent to 59.5 per cent) because it was already at a high level in 1993-94. Several new activities within the tertiary sector are growing rapidly. The IT sector and BPO (business process outsourcing) units are some examples. However, trade-related activities cannot necessarily be treated as an indicator of rapid economic growth because they account for a sizeable percentage of low productivity employment (Mitra, 1994). Entry into this sector is relatively easy as skill requirement is nominal. Besides, setting up businesses is much easier as they can be operated in the open air along pavements. The activity specific (enterprise) surveys carried out by the NSS in the 1990s reveal a depressing picture of trade sector workers, though some of the information relating to value added are totally unreliable in these surveys (Acharya and Mitra, 2000). On the whole, whether the poor are benefiting from this pattern of growth and employment generation is still a matter of major concern.

**Table 7 : Employment structure of male and female workers (UPSS) in rural and urban areas (%)**

	Males	Males	Males	Males	Males	Females	Females	Females	Females	Females
Activities (rural)	1983	1987-88	1993-94	1999-2000	2004-05	1983	1987-88	1993-94	1999-2000	2004-05
Agriculture & allied activities	77.5	74.5	74.1	71.4	66.5	87.5	84.7	86.2	85.3	83.3
Mining & quarrying	0.6	0.7	0.7	0.6	0.6	0.0	0.4	0.4	0.3	0.3
Manufacturing	7.0	7.4	7.0	7.3	7.9	6.4	6.9	7.0	7.6	8.4
Utilities	0.2	0.3	0.3	0.2	0.2	0.0	0.0	0.1	0.0	0.0
Construction	2.2	3.7	3.2	4.5	6.8	0.7	2.7	0.9	1.1	1.5
Trade, hotels, etc.	4.4	5.1	5.5	6.8	8.3	1.9	2.1	2.1	2.0	2.5
Transport, etc.	1.7	2.0	2.2	3.2	3.8	0.1	0.1	0.1	0.1	0.2
Services	6.1	6.2	7.0	6.2	5.9	2.8	3.0	3.4	3.6	4.6
Activities (urban)	1983	1987-88	1993-94	1999-2000	2004-05	1983	1987-88	1993-94	1999-2000	2004-05
Agriculture & allied activities	10.6	9.1	9.0	6.5	6.1	31.5	29.4	24.7	17.6	18.1
Mining & quarrying	1.2	1.3	1.3	0.9	0.9	0.7	0.8	0.6	0.4	0.2
Manufacturing	26.8	25.7	23.5	22.4	23.5	26.7	27.1	24.1	24.0	28.2
Utilities	1.1	1.2	1.2	0.8	0.8	0.2	0.2	0.3	0.2	0.2
Construction	5.1	5.8	6.9	8.7	9.2	3.2	3.7	4.1	4.8	3.8
Trade, hotels, etc.	20.4	21.5	21.9	29.4	28.0	9.5	9.8	10.0	16.9	12.2
Transport, etc.	10.0	9.7	9.7	10.4	10.7	0.6	1.2	1.3	1.8	1.4
Services	24.7	25.2	26.4	19.0	20.8	26.7	27.8	35.0	34.2	35.9

*Source: Employment and Unemployment Situation in India 2004-05 (Part I), NSS 61st Round, Government of India, September 2006*

As we observe from Table 8, employment in the casual labour category increased over time, particularly in the rural areas. It was as high as 36.2 per cent in the case of rural males and 39.6 per cent among rural females in 1999-2000. As some micro studies tend to show, the casualization process and contractual employment have started in the organized sector as well. Therefore, to believe that eventual attainment of organized sector employment would provide job seekers high wages could actually be an illusion. Secondly, casualization, when viewed in the backdrop of the rise in the share of the tertiary sector, which accounts for a large percentage of low income jobs in the non-agricultural sector, suggests low earnings accruing to workers, not only because of the nature of the activities, but also the nature or status of employment.

Surprisingly the composition of the workforce as per the status of employment shows a major shift in favour of self-employment in 2004-05, with a decline in casual employment in the relative sense. This pattern is evident among all the four categories of rural males, rural females, urban males, and urban females. On the other hand, the proportion of the workforce engaged as regular employees declined somewhat among urban males, even though it increased perceptibly among urban females. Possibly, the casualization process is no longer able to generate employment opportunities, thus forcing many male job seekers to be self-employed. Of course, this could also be due to the expansion of IT into several activities, allowing employees at the higher rungs to work from home as self-employed individuals.

On the whole, the relative size of self-employment is quite large and this has increased further, as per the 61st round of the NSS, at the cost of the relative size of casual employment. This is quite unusual because, in the process of growth, a shift away from self-employment towards wage employment is expected to take place. Secondly, with the exception of 2004-05, the long-term trend shows that casualization, comprising the vulnerable category of workers within the category of wage employment, is on the rise in the case of rural males, rural females and urban males. And by and large, this has been accompanied by a declining trend in regular wage employment among rural and urban males.

Though it does not seem justifiable to conclude that the reforms have initiated casualization on a large scale, the phenomenon of long term contractual employment is unlikely to get captured in the category of casual employment. Moreover, as some of our surveys reveal, contract workers hired through intermediaries often identify themselves as regular employees due to the lack of any written contract, though the hiring organization has a written contract with the intermediary or the contracting firm (Mitra, 2006). Needless to add that the contractual employees are deprived of several benefits relating to health, leave and retirement, even in the organized sector. In fact, a large component of the salary of the contract labour is expropriated by the new intermediary class of contractors which has been created in recent years and which tends to suppress the share of labour in the growth process.

**Table 8 : Employment status: Composition of workers (UPSS) by sex and rural-urban residence:  
NSS data 1972-73-2004-05: All India (%)**

		Year	Self-employed	Regular employee	Casual labour
Rural	Males	1972-73	65.9	12.1	22
		1977-78	62.8	10.6	26.6
		1983	60.5	10.3	29.2
		1987-88	58.6	10	31.4
		1993-94	57.9	8.3	33.8
		1999-2000	55	8.8	36.2
		2004-05	58.1	9.0	32.9
Rural	Females	1972-73	64.5	4.1	31.4
		1977-78	62.1	2.8	35.1
		1983	61.9	2.8	35.3
		1987-88	60.8	3.7	35.5
		1993-94	58.5	2.8	38.7
		1999-2000	57.3	3.1	39.6
		2004-05	63.7	3.7	32.6
Urban	Males	1972-73	39.2	50.7	10.1
		1977-78	40.4	46.4	13.2
		1983	40.9	43.7	15.4
		1987-88	41.7	43.7	14.6
		1993-94	41.7	42.1	16.2
		1999-2000	41.5	41.7	16.8
		2004-05	44.8	40.6	14.6
Urban	Females	1972-73	48.4	27.9	23.7
		1977-78	49.5	24.9	25.6
		1983	45.8	25.8	28.4
		1987-88	47.1	27.5	25.4
		1993-94	45.4	28.6	26
		1999-2000	45.3	33.3	21.4
		2004-05	47.7	35.6	16.7

*Note: The combined figures for both the sexes and all areas are taken from Sundaram (2004) till 1999-2000. For 2004-05, we have used our projected population to assign the appropriate weights.*

	<i>Self-employed</i>	<i>Regular wage</i>	<i>Casual</i>
<i>1983</i>	<i>57.28</i>	<i>13.85</i>	<i>28.87</i>
<i>1993-94</i>	<i>54.54</i>	<i>13.66</i>	<i>31.80</i>
<i>1999-2000</i>	<i>52.20</i>	<i>14.70</i>	<i>33.10</i>
<i>2004-05</i>	<i>56.44</i>	<i>15.12</i>	<i>28.34</i>

*Source: Employment and Unemployment Situation in India 2004-05. See Table 1*

## 4. Unemployment trends in India

There have been some changes with respect to unemployment in the 1990s. The open unemployment rate (defined as those not working, but seeking or available for work on UPSS basis, as a percentage of the labour force) has neither been generally high on an average for all sections of the population, nor has it increased considerably over the years; rather, in the 1990s, it shows a declining tendency in both rural and urban areas, corresponding to both the sexes (Table 9). Those usually unemployed in terms of the principal status constitute only 2 per cent and 1.5 per cent of the male and female labour force, respectively, in rural areas in 1999-2000. And in the urban areas, the corresponding rates were 4.8 per cent and 7.1 per cent, indicating a high incidence of unemployment among urban females. However, unemployment has been much higher among the urban, educated youth as they can afford to remain unemployed for long, spending time looking for a job. The proportion of educated among the unemployed was 59 per cent and 74 per cent among males and females, respectively, in urban areas (63 per cent for both sexes) in 1999-2000.

Even in the rural areas, the educated accounted for 55.2 per cent and 62.7 per cent of male and female unemployment, respectively (57 per cent for both sexes).<sup>3</sup> Among the unskilled and semi-skilled labour force, it is the category of 'working poor' which is dominant, and hence, ways and means of improving productivity and earnings corresponding to activities they are engaged in, need to be an important focus of policy. The current daily status unemployment rate, which, in addition to open unemployment, also captures underutilization of the labour time of those who are already employed, was around 7 per cent among rural and urban males and rural females in 1999-2000 (Table 9). Among urban females, it was even higher - a bit more than 9 per cent in 1999-2000.

As per the recent survey (2004-05), the open unemployment rate among both rural and urban females went up to 3.1 per cent and 9.1 per cent, respectively, though among the males, it remained by and large constant in comparison to 1999-2000. On the other hand, the current daily status unemployment rate, which captures underemployment, increased among rural males and females both and among urban females. All this is indicative of the lack of productive employment opportunities for the poor in the process of growth.

<sup>3</sup> NSS Report No. 455, *Employment and Unemployment in India 1999-2000*.

*Unemployment rate (usual principal status) by education*

	<i>Secondary and above</i>		<i>Graduate and above</i>	
	<i>Males</i>	<i>Females</i>	<i>Males</i>	<i>Females</i>
<i>Rural</i>				
1993-94	8.9	24.3	13.4	32.3
1999-2000	6.9	20.4	10.7	35.1
<i>Urban</i>				
1993-94	6.9	20.7	6.4	20.5
1999-2000	6.6	16.3	6.6	16.3

*Ghose (2004) also shows a direct relationship between the years of education and the rate of unemployment*

Table 9 : Unemployment rates from 1977-78 to 2004-05 in different NSS rounds

	Round (Year)	Male US	Male CWS	Male CDS	Female US	Female CWS	Female CDS
Rural	61 (2004-05)	2.1	3.8	8.0	3.1	4.2	8.7
Rural	55 (1999-2000)	2.1	3.9	7.2	1.5	3.7	7.0
Rural	50 (1993-94)	2.0	3.1	5.6	1.3	2.9	5.6
Rural	43 (1987-88)	2.8	4.2	4.6	3.5	4.4	6.7
Rural	38 (1983)	2.1	3.7	7.5	1.4	4.3	9.0
Rural	32 (1977-78)	2.2	3.6	7.1	5.5	4.1	9.2
Urban	61 (2004-05)	4.4	5.2	7.5	9.1	9.0	11.6
Urban	55 (1999-2000)	4.8	5.6	7.3	7.1	7.3	9.4
Urban	50 (1993-94)	5.4	5.2	6.7	8.3	7.9	10.4
Urban	43 (1987-88)	6.1	6.6	8.8	8.5	9.2	12.0
Urban	38 (1983)	5.9	6.7	9.2	6.9	7.5	11.0
Urban	32 (1977-78)	6.5	7.1	9.4	17.8	10.9	14.5

*Notes*

*US: Usual status, which uses the reference period of 365 days preceding the date of survey*

*CWS: Current weekly status, which uses the reference period of seven days preceding the date of survey*

*CDS: Current daily status, which takes into account the day to day labour time disposition of the reference week*  
*The usual status unemployment rate among all persons of all areas (rural and urban combined) was 2.8 per cent for 1999-2000 (Ghose, 2004).*

*Source: NSS Report No. 455: Employment and Unemployment in India 1999-2000, Key Results and Employment and Unemployment Situation in India, September 2006*

Notwithstanding the decline in the open unemployment rates in the 1990s, the employment scenario on the whole does not seem to be bright, provoking some to term it 'jobless growth' as the data show a sharp slowdown in the average annual increments to the workforce during this period as compared to the 1980s. However, Sundaram (2004) points out that the entire decline originated from the decline in women workers and the rise in self-employment. Further, as he points out, half of the slow-down in the average annual increments to female workers in the 1990s can be explained in terms of age-structure shift, rise in the school enrolment ratio, and reduction in the proportion of women in poor households. Since the regular wage/salaried jobs grew during the 1990s, he reiterates that this is a period of acceleration.

While the concept of 'jobless growth' could be an exaggeration of the differential between the realized and expected outcomes of the reform process on the employment front, casting it as a bright reality is equally erroneous. The rise in the average annual increment in the number of regular wage/salaried jobs between 1993-94 and 1999-2000 compared to that between 1983 and 1993-94 did not compensate for the decline in the average annual increment in the number of self-employed and casual workers in the 1990s as compared to the 1980s. Before making any assertion on acceleration, it is important to assess whether women's employment declined because of lack of employment opportunities or whether self-employment dropped because they could not survive the competition or carry on because of the major constraints posed by factors such as credit and accessibility to the market.

Further, the increase in the average annual increment in the number of self-employed workers during the 1990s compared to the 1980s in poverty line households, which is taken by Sundaram (2004) as a positive change, does not seem convincing. Though a part of this rise can be attributed to the urbanization process spilling over to nearby rural areas, urbanization in general is expected to bring in a shift away from household based activities towards commercialization. Besides, though Sundaram (2001, 2004) argues that a fall in the average number of days worked by the casual labour has been accompanied by a significant rise in real wage rates, it is important to know if the rise in total earnings of a casual labourer due to the rise in the wage rate has been larger than the loss in total earnings due to the number of days lost. Narain (2006), basing his theory on unit level data, brings out clearly the fact that while a part of the decline in the female work participation rate during the 1990s could be due to the rise in the enrolment ratio and the rise in incomes, the discouraged drop-out effect cannot be ruled out. In other words, large spells of unemployment may have resulted in female workers withdrawing from the labour market.

Rising education and income levels in the top quintile had a role in reducing the participation rates, though, as Narain (2006) observes, the effect was much smaller than the worsening unemployment rate in the case of rural females.

Further, it may be added that if the withdrawal from the labour market were initiated by a positive change, a revival should not have happened in 2004-05, as noted above. In 2004-05, the relative size of self-employment increased among males and females in both rural and urban areas, which is accompanied by a rise in the current daily status unemployment rate among females in both rural and urban areas and among males in rural areas. In the face of these changes, it is difficult to conclude that the employment scenario for the poor is actually improving over the years.

The youth unemployment rate is quite high among both males and females in rural and urban areas (Table 10). Among rural and urban females, the rate went up in 2004-05 relative to 1999-2000, but among males, it shows a decline over the same period. At the entry level to the group (15-19 years), both rural males and females have experienced a rise in the unemployment rate since 1993-94. However, in urban areas, there has been a decline in the unemployment rate in 2004-05 after it increased in 1999-2000 relative to 1993-94.

**Table 10 : Unemployment rate (usual status)**

Age groups (in years)	Rural males	Rural females	Urban males	Urban females
15-19	(1*) 3.3	(1) 1.9	(1) 11.9	(1) 12.8
	(2) 5.5	(2) 3.2	(2) 14.2	(2) 13.2
	(3) 5.9	(3) 3.6	(3) 12.1	(3) 11.1
20-24	(1) 4.9	(1) 2.8	(1) 12.6	(1) 21.7
	(2) 5.2	(2) 3.5	(2) 12.8	(2) 19.4
	(3) 4.7	(3) 5.7	(3) 11.1	(3) 19.6
25-29	(1) 2.3	(1) 0.9	(1) 5.7	(1) 9.7
	(2) 2.6	(2) 1.6	(2) 7.2	(2) 9.3
	(3) 1.6	(3) 3.2	(3) 4.9	(3) 12.6
15-29	(1) 3.5	(1) 1.9	(1) 9.6	(1) 15.0
	(2) 4.3	(2) 2.7	(2) 10.8	(2) 13.9
	(3) 3.9	(3) 4.2	(3) 8.8	(3) 14.9

*Notes*

\*1: 1993-94; 2: 1999-2000; 3: 2004-05

Source: *Employment and Unemployment Situation in India 2004-05, Part I. See Table 1*



## 5. Formal and informal employment

The employment scenario cannot be understood merely in terms of unemployment rates or the status of employment. In order to draw further insights into the quality of employment, we can examine the relative size of the informal or unorganized sector. Three different estimates are provided below as regards the size of the informal sector. The 55th round of the NSS collected information on informal sector non-agricultural enterprises for the first time as a part of its employment-unemployment survey. Information on workers, including those working in proprietary and partnership non-agricultural enterprises, was collected for each member of the household under the employment-unemployment survey. In this survey, 'all unincorporated proprietary and partnership enterprises were defined as informal sector enterprises'<sup>4</sup> (NSSO, 2001).

The estimated number of workers in the informal non-agricultural enterprises are given based on the enterprise survey (Schedule 2.0) and the household survey (Schedule 10) in both rural and urban areas. Interestingly, both schedules differ substantially from each other in terms of the number of workers. By and large, the household schedule enumerated a larger number of workers than the enterprise schedule. Only in the rural areas of Bihar, Karnataka, and Orissa and in the urban areas of Gujarat did the number of workers in informal enterprises obtained from the enterprise approach exceed the number of workers obtained from the household approach (Table 12). On an average, at the all India level, as seen from Table 11, around 55 per cent and 47 per cent of the workers are found in the informal sector in the rural and urban areas, respectively (obtained from the enterprise survey). On the basis of the household survey, the estimates are 65 per cent and 55 per cent for rural and urban areas, respectively. Both the estimates, however, are indicative of a very large percentage of workers being engaged in the informal sector. In both rural and urban areas, workers from own account enterprises comprise a very significant percentage of the total informal sector workers. Though own account enterprises comprise the bulk (85 per cent) of the informal sector workers in rural areas, urban areas show an almost equal distribution of workers across own account enterprises and establishments (Table 11).

The incidence of the informal sector defined as the proportion of informal sector workers to total workers is highest in trade, etc., followed by manufacturing, transport and real estate, business services, etc. Though community, social, and personal services are also expected to show a high incidence of informal sector employment, the exclusion of domestic services from the informal sector survey reduces its share (Table 11). In terms of composition, it may be noted in Table 11 that manufacturing and trade account for 70-75 per cent of total informal sector employment. In urban areas, the share of trade, etc., (41 per cent) exceeds that of manufacturing (30 per cent). Hence, the dominance of the tertiary activities in the informal sector, which was observed three decades ago (Udall, 1976; Mitra, 1990), does not seem to have undergone any major change.

It is of great analytical interest to check if the share of the informal sector varies in response to industrialization and rise in per capita income. Since time series information is not available, we can analyse the inter-state variations in the relative size of the informal sector. Across states as observed in Table 12, the urban areas of Andhra Pradesh, Gujarat, Haryana, Punjab, and Uttar Pradesh reported a somewhat higher estimate of informal sector employment in relative terms as compared to the national average (from the enterprise approach). Even as per the household approach, Andhra Pradesh, Haryana, Orissa, Punjab,

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<sup>4</sup> This is different from the definition of unorganized sector used in the National Account Statistics, which considers enterprises run by cooperative societies, trusts, private and public limited companies (not covered by ASI), in addition to the units covered by the informal sector here.

and Uttar Pradesh registered a higher figure than urban India as a whole. By and large, the highly industrialized states tend to show a relatively lower share of informal sector employment in the urban areas.

As far as the rural areas are concerned, states such as Karnataka, Orissa, Uttar Pradesh, and West Bengal reported a very large share of informal sector employment, much above the national average, as per the enterprise approach. However, based on the household approach, Tamil Nadu, Uttar Pradesh, and West Bengal turn out to be the outliers.

On the whole, states with both high and low levels of industrialization and/or per capita income reveal a very large share (more than half) of the informal sector in total employment across both rural and urban areas, which tends to support Papola's view (Papola, 1981), though the processes and causes of growth of the informal sector in both situations are quite different.<sup>5</sup>

Another estimate is obtained by following the residual approach, i.e., the number of organized sector workers for 2000, as estimated by the DGE&T of the Ministry of Labour, has been deducted from the total number of workers for 1999-2000 (Table 13). As per this estimate, the unorganized sector comprises around 90 per cent of the workers in the non-agriculture sector in all areas, rural and urban combined. But the organized sector employment, which has been documented quite extensively, is grossly underestimated.

**Table 11 : Relative size and composition of informal sector: All India (1999-2000)**

Category (Industry)	Rural			Urban		
	OAE workers in informal sector (%)	Informal enterprise workers as % of total workers	% distribution of informal enterprise workers across categories	OAE workers in informal sector (%)	Informal enterprise workers as % of total workers	% distribution of informal enterprise workers across categories
Manufacturing	84.06	78.56	44.4	46.53	56.35	29.9
Construction	78.29	15.14	3.8	60.00	15.36	2.9
Trading and repair services	92.66	87.96*	30.1	63.13	75.63*	41.1
Hotels and restaurants	77.11		4.2	41.83		6.6
Transport, storage and communications	80.24	39.59	6.4	71.11	33.16	6.8
Financial intermediation	57.14		0.2	44.44		0.7
Real estate, renting and business Activities	74.19	34.72**	0.8	46.28	38.57**	3.0
Education	35.59		1.5	26.09		2.9
Health and social work	83.33		1.4	35.82		1.7
Other community, social, and personal services (excluding domestic services)	93.81	27.09***	7.3	68.68	19.95***	4.6
All	85.76	55.20	100.0	55.32	46.83	100.00

<sup>5</sup> This point is discussed later in the text.

Notes

OAE: Own account enterprises

\* Trading, etc., includes hotels, etc.

\*\* Real estate, etc., includes finance

\*\*\* Community services include education and health. Though the informal sector corresponding to community, etc., does not include domestic services, total workers in this category include them, resulting in underestimation of the relative size of the informal sector in this category.

The percentage of informal sector workers has been calculated by applying the NSS work participation (UPSS) rate to the 2001 census adjusted population figures for 1999-2000. For various industry divisions or categories, the absolute figures are obtained by applying the NSS figures of per 1,000 distribution of workers.

Source: Absolute number of informal sector workers is taken from *Informal Sector in India, 1999-2000, Salient Features, NSS 55th Round, Report No. 459 (55/2.0/2)*

Table 12 : Employment size of informal sector across states (1999-2000)

State	Rural			Urban		
	Informal enterprise workers as % of total workers	Informal household workers as % of total workers	Informal enterprise workers as % of informal household workers	Informal enterprise workers as % of total workers	Informal household workers as % of total workers	Informal enterprise workers as % of informal household workers
Andhra Pradesh	59.81	68.15	87.76	53.96	71.36	75.62
Assam	34.64	51.19	67.66	35.20	40.32	87.28
Bihar	57.21	53.12	107.71	44.37	48.30	91.87
Gujarat	40.14	61.40	65.38	53.03	52.25	101.50
Haryana	30.85	54.47	56.64	48.59	56.82	85.52
Karnataka	69.60	68.56	101.51	45.15	48.84	92.45
Kerala	37.96	64.42	58.93	41.88	54.03	77.51
Madhya Pradesh	58.37	59.46	98.18	39.37	53.91	73.04
Maharashtra	51.71	56.05	92.25	44.43	54.46	81.58
Orissa	87.58	67.41	129.91	41.18	62.22	66.18
Punjab	37.64	61.44	61.27	54.28	59.87	90.66
Rajasthan	36.89	58.28	63.29	39.02	52.97	73.67
Tamil Nadu	51.69	74.94	68.97	44.12	55.64	79.30
Uttar Pradesh	68.91	70.64	97.55	57.23	69.30	82.58
West Bengal	69.49	82.05	84.69	40.12	44.58	89.99
All India	55.20	64.74	85.26	46.84	55.27	84.75

Notes

Figures on informal sector workers have been given by NSS, following both the enterprise survey approach (Schedule 2.0) and the household survey approach (Schedule 10).

Source: See Table 4

**Table 13 : Unorganized sector employment from residual approach: All India**

Industry division	Total organized employed in 2000	Unorganized employed as % of total workers in 1999-2000
Agriculture	1 418 000	99.41
Mining	1 005 000	55.73
Manufacturing	6 616 000	84.88
Utilities	987 000	21.89
Construction	1 149 000	93.45
Trade	493 000	98.79
Transport	3 147 000	78.34
Finance	1 654 000	65.18
Services	11 494 000	65.34
Total	27 960 000	92.98
Non-agricultural		90.20

*Source: Figures on organized sector (public and organized private) are taken from the Economic Survey 2003-04, quoting figures reported by DGE&T, Ministry of Labour*

## **6. Employment elasticity and labour productivity**

Growth in labour productivity in the face of sluggish employment growth can result from rise in capital intensity without any improvement in the level of technology or rise in organizational/managerial efficiency. On the other hand, productivity growth without a rise in real wages is indicative of the absence of productivity gains being transferred to labour.

The employment elasticity defined as the annual rate of growth of employment (UPSS) relative to the annual rate of growth of gross value added (at factor cost) turns out to be extremely low at the aggregate level (Table 14). In fact, it declined from 0.40 in the first period to 0.15 in the second period. Agriculture and allied activities recorded negative employment elasticity in the 1990s because employment fell in absolute terms in these activities. Similarly, in mining and utilities, too, the negative figure is evident. Manufacturing registered an elasticity of barely 0.29 in the second period, declining from 0.37 in the first period. Construction, trade, transport, and financial services experienced relatively higher employment elasticity and, among them, all activities except trade either registered constant or increasing employment elasticity in the second period relative to the first. Interestingly, despite the decline in the employment elasticity in trade, hotels, etc., still turns out to be relatively high (0.57) in 1999-2000.

In the third period (1999-2000-2004-05), considerable improvement in employment elasticity is evident across several activities. Despite a decline in the value added growth in agriculture in comparison to the earlier periods, employment growth picked up and this raised the employment elasticity to unity in this sector. Trade, hotels, etc., and financing and business services registered an increase in employment elasticity. However, transport, storage, and communication experienced a marked decline in employment elasticity, implying that the perceptible increase in the value added growth rate

in this activity did not generate employment proportionately. Does this tend to suggest that the IT sector boom seen in terms of value added and employment in the initial stages has now reached a saturation point in employment terms, though it continues to generate value added growth with the help of manpower already existing in this sector?

**Table 14 : Rate of growth of gross domestic product (% per annum) and employment elasticity**

Activity	Rate of growth of GDP (%p.a.)			Employment elasticity		
	1983-1993-94	1993-94-1999-2000	1999-2000-2004-05	1983-1993-94	1993-94-1999-2000	1999-2000-2004-05
Agriculture and allied activities	2.82	2.84	1.82	0.49	-0.05	1.04
Mining and quarrying	6.02	5.09	4.69	0.69	-0.56	0.61
Manufacturing	5.79	7.08	6.24	0.37	0.29	0.51
Electricity, gas, etc.	8.07	6.71	3.43	0.56	-0.13	-0.16
Construction	4.76	6.16	7.88	1.12	1.15	0.99
Trade, hotels, etc.	5.43	8.77	7.59	0.66	0.57	0.76
Transport, etc.	5.91	8.97	11.89	0.55	0.67	0.39
Financial services	9.63	8.03	6.40	0.75	0.77	1.34
Community, social, and personal services	5.17	8.22	5.25	0.56	0.07	0.46
Total	5.05	6.42	5.79	0.40	0.15	0.51

*Notes*

*Sectoral and aggregate GDP and employment growth rates are point-to-point estimates (exponential) at 1993-94 prices for the periods 1983-1993-94 and 1993-94-1999-2000, and at 1999-2000 prices for the period 1999-2000-2004-05. Employment elasticity is defined as the ratio of the rate of growth of employment to the rate of growth of GDP.*

*Source: Based on the CSO estimates of GDP and NSS figures on employment*

Since employment growth decelerated in agriculture, mining, and utilities in the 1990s as compared with the 1980s, the rapid productivity growth in these activities in the second period is obvious (Table 15). Similar is the case with community, social, and personal services. What is interesting to note is that activities such as trade, transport, and financial services, which experienced a rise in the employment growth rate, also reported a rise in productivity growth in the 1990s relative to the 1980s. Even in manufacturing, where the employment growth rate declined marginally in the second period compared to the first, productivity growth accelerated from 3.40 per cent to 5.05 per cent per annum. It is only in construction activity that productivity growth has been negative in both the periods, despite positive growth rates both in terms of value added and employment (Table 15). Labour productivity in the third period (1999-2000-2004-05) decelerated considerably across several activities. At the aggregate level, it almost halved. Only transport, storage, and communication registered a significant increase.

**Table 15 : Labour productivity (Rs) and growth rate (% per annum)**

Activity	Product 1983 (in 1993-94 prices)	Product 1993-94 (in 1993-94 prices)	Product 1999- 2000 (in 1993-94 prices)	Product 2004-05 (in 1999- 2000 prices)	Growth rate 1983- 1993-94	Growth rate 1993-94- 1999- 2000	Growth rate 1999-00- 2004-05
Agriculture and allied activities	8 806.15	10 104.69	12 080.44	19 113.53	1.31	2.98	-0.07
Mining and quarrying	62 699.03	74 414.81	120 127.8	183 233.48	1.63	7.98	1.84
Manufacturing	20 659.87	29 527.76	39 976.25	55 012.08	3.40	5.05	3.08
Electricity, gas, etc.	99 914.12	140 622.2	221 882.8	349 468.75	3.25	7.60	3.97
Construction	37 181.74	34 754.28	33 337.12	59 675.94	-0.64	-0.69	0.04
Trade, hotels, etc.	30 015.72	35 769.98	45 069.4	68,098.34	1.67	3.85	1.85
Transport, etc.	38 318.24	49 497.58	59 637.85	89 689.58	2.44	3.11	7.26
Financial services	202 842.2	255 920.5	288 837.6	460 895.05	2.21	2.02	-2.19
Community, social and personal services	22 623.92	26 653	46 198.49	79 516.26	1.56	9.17	2.82
Total	155 881.38	20 866.47	28 926.15	45 145.89	2.78	5.44	2.82

*Notes*

*While calculating the growth rate of productivity for the period 1999-2000-2004-05, the productivity figures for both years have been estimated in 1999-2000 prices).*

*Source: Based on CSO's estimate of value added and NSSO's estimate of employment*

## 7. Work and poverty

The concept of pro-poor growth in the context of developing countries with large supplies of labour is indeed important, as it will ensure rapid growth and employment generation (for the poor) along with decent wages. Though economic growth picked up during the 1990s, employment grew sluggishly during this period. In fact, the employment growth decelerated during 1993 through 1999-2000 compared to what was experienced in 1983-1993-94. There was a missing link between the rise in economic growth and reduction in poverty that took place during this period. The recent survey (61st round) of the NSS shows that employment growth has picked up considerably (to nearly 3 per cent per annum) over the period from 1999-2000 to 2004-05, but the extent of decline in poverty has been much slower after 1993 compared to what was experienced from 1983 to 1993-94. In fact, as per the Economic Survey (2006-07), the incidence of poverty is estimated at 27.8 per cent for 2004-05, which is comparable with the estimate for 1993-94. This tends to indicate that in recent years, economic growth and employment generation have both been more beneficial to those located in the upper income strata than the poor. In other words, in the present situation of economic growth, employment is generated

more for the educated labour force than for the poor with lower levels of human capital. All this is likely to have resulted in increasing inequality.

Incidence of poverty (headcount measure) was as high as 56.4 per cent and 49 per cent in 1973-74, which declined to 37.27 per cent and 32.36 per cent in 1993-94 in rural and urban areas, respectively. In the period, 1993-94-1999-2000, the consumer expenditure survey results show a massive decline in the headcount measure of poverty-24 per cent and 23.3 per cent as per the seven-day recall period and 27.09 per cent and 26.1 per cent as per the 30-day recall period in rural and urban areas, respectively, in 1999-2000. As the results of the consumer expenditure survey for 1999-2000 might have possible contamination of results with a 30-day reference period by the simultaneous canvassing of expenditure details on a seven-day reference period, it may be useful to estimate poverty from the employment-unemployment surveys.

As reported by Sundaram (2001), the incidence of poverty from employment-unemployment surveys was 39.36 per cent and 30.37 per cent in 1993-94, which declined to 36.35 per cent and 28.76 per cent in 1999-2000 in rural and urban areas, respectively. Quite clearly, the extent of decline over time as per the employment-unemployment surveys is much less than what is reported in the consumer expenditure surveys. Secondly, the discrepancy between the estimates from the two different sources was much less in 1993-94 than in 1999-2000, particularly in the rural areas. Hence, there is reason to doubt the validity of the consumer expenditure based estimate for 1999-2000, which seems to have been biased due to the mixing up of recall periods. Therefore, going by the estimate of poverty from the employment-unemployment survey, poverty does not seem to have declined considerably during the 1990s.

Himanshu's estimate (2007) of rural poverty for 1999-2000 is slightly different from that of Sundaram (2001). The former estimated poverty at 34.0 per cent and 28.9 per cent for rural and urban areas, respectively, in 1999-2000, which declined to 24.9 per cent and 25.0 per cent in 2004-05 as per the employment-unemployment survey. If these estimates are comparable over time, it is quite evident that the extent of decline is sharper between 1999-2000 and 2004-05 than between 1993-94 and 1999-2000.

Estimates of the incidence of poverty for 2004-05 from the consumption expenditure survey, which are comparable with the 1993-94 estimates, suggest that the extent of decline in poverty in the post-reform period (1993-2005) has not been higher than in the pre-reform period (1983-93), as already mentioned above (Mahendra Dev and Ravi, 2007). Further, based on the mixed reference period, the extent of decline from 1999 to 2005 seems to be higher than from 1993 to 2000, though the latter sub-period is characterized by slower growth in agriculture.

Himanshu (2007) argues that some of the traditional high poverty incidence states in the eastern part of the country performed better in terms of non-income as well as income and employment indicators over this sub-period, 1999-2005, which possibly contributed to reduction in poverty. It may be recalled that at the national level, employment growth has been reasonably high from 1999-2000 to 2004-05 and also that the decline in poverty has been sharp. On the other hand, employment growth was sluggish over the 1990s (1993-94 through 1999-2000) and, therefore, poverty decline was marginal, too. All this tends to suggest that employment behaviour and poverty decline are intimately related.

As regards the relationship between the average annual value added growth rate (1999-2000 through 2003-04 in 1993-94 prices) and the incidence of poverty (2004-05) across states, the correlation turns out to be -0.22, -0.39 and -0.28, corresponding to rural, urban and all areas poverty, respectively. Hence, economic growth is indeed a necessary condition for reduction in poverty. But the positive effects of growth on low income households can be felt only when employment is generated simultaneously.

## Rural poverty

In the rural context, the importance of the rural non-farm sector for employment generation and rural diversification has been emphasized extensively (Acharya and Mitra, 2000). It may be useful from this point of view to assess the poverty scenario across activities. The percentage of households below the poverty line and calculated across activities from the NSS 50th round survey on employment and unemployment, shows that it was highest in agriculture in 1993-94 (Table 16). However, in some non-farm sector activities such as construction, it was as high as 37 per cent, only marginally less than the percentage of households below the poverty line in agriculture. This is quite surprising because rural construction is expected to include major rural irrigation projects. Even in manufacturing and mining and quarrying, the incidence was 31 per cent and 34 per cent, respectively. It is indeed interesting to note that some activities such as rural trade and financial services and transport, which grew at quite a fast rate during the period from 1983 to 1993-94, reported a substantially lower incidence of poverty in 1993-94. From the policy point of view, it may be suggested that infrastructure plays an important role in reducing poverty.

For 1999-2000, as Table 16 shows, the incidence of poverty was highest among agricultural labour (around 47 per cent). Other labour, which would include wage employment in non-agricultural activities, reported an incidence of 29 per cent. It may be noted that those who were self-employed in the agriculture sector were slightly better off than their counterparts in the non-agriculture sector in terms of incidence of poverty.

**Table 16 : Percentage of households below the poverty line in rural areas**

Activities	% of BPL households in 1993-94	Household type	% of BPL households in 1999-2000
Agriculture	38.6	Self-employed in agricultural activities	25.2
Mining	34.0	Self-employed in non-agricultural activities	27.0
Manufacturing	30.8	Agricultural labour	46.9
Electricity	11.8	Non-agricultural labour	29.2
Construction	36.7		
Trade	23.5		
Transport	25.6		
Services	18.5		
All	35.2	All	31.5

### Notes

*The poverty line is taken at Rs 211.3 for 1993-94 and Rs 335.46 for 1999-2000; see Sundaram (2001). Source: Survey Results on Employment and Unemployment Situation in India, NSS 50th Round (1993-94), Sarvekshana, Vol. 20, No. 1, 68th Issue, July-September 1996. Employment and Unemployment Situation in India, NSS 55th Round (1999-2000), Report No. 458*



It is important to know why people join the labour market in the subsidiary status. Is it because they are engaged in household activities - as is the case generally with women - and hence do not find adequate time to take up jobs as principal workers or do they join the labour market as subsidiary status workers because they are looking out for better jobs? We analyse this aspect particularly for the rural areas since subsidiary status activity is more prevalent in rural areas than in urban areas.

Table 17 suggests that around 8 per cent of rural males working as self-employed workers in agriculture (in subsidiary status) also have a second subsidiary activity, either in agriculture or non-agriculture, though the nature of the second activity could be self-employment or casual employment. Similarly, among those in the non-agriculture sector working as self-employed subsidiary status workers, around 10 per cent have a second subsidiary activity as well (either in the agriculture or non-agriculture sector). Again, this pattern is evident among males working as subsidiary status casual labour either in the agriculture or non-agriculture sector.

Among rural females, a sizeable number is found to follow this pattern as well. In addition, among those who have been working as regular employees (in subsidiary status) in the non-agriculture sector, more than 22 per cent have been engaged in the agriculture sector as self-employed subsidiary status workers. As income from one activity is not sufficient to meet their requirements, they seem to diversify their activities across both the agriculture and non-agriculture sectors. The possibility of both subsidiary status activities being located in the non-agriculture sector is quite rare.

Among the principal status workers also, some are found to have subsidiary status activity, and this pattern is not sector specific (Table 18). Principal status workers in non-agriculture are also found in the agriculture sector with subsidiary activity, though the reverse, i.e., the principal status worker being in agriculture with subsidiary activity in non-agriculture, is found seldom. Again, the possibility of both activities (one in principal status and the other in subsidiary status) being located in the non-agriculture sector is negligible. The fact that some of the rural principal status workers engaged either in the agriculture or the non-agriculture sector also have subsidiary activities in the agriculture sector is indicative of two important points. First, the considerable overlaps that exist between these two sectors, i.e., agriculture and non-agriculture, in the rural context cannot be viewed as two separate segments as in the case of urban areas. Second, the work pursued on the basis of principal status does not necessarily yield a high income and that could be the reason why some of the principal status workers, either in agriculture or in non-agriculture, decide to augment their earnings by working in the capacity of subsidiary status in the agriculture sector as such possibilities exist to a larger extent in this sector than in the non-agriculture sector. On the other hand, the subsidiary status work in the agriculture sector could be related to self-cultivation, which, if not able to generate reasonable earnings, prompts some of the workers to look for opportunities in the labour market as a principal status worker. On the whole, rural diversification is indeed important for reduction in poverty and there is the need for productive employment generation as the majority of the poor may be pursuing full-time activities for meagre earnings.

Table 17 : Percentage of rural males and females by usual subsidiary economic activity I: 1999-2000

Subsidiary economic activity I						
Subsidiary economic activity I	Self-employment		Regular employment		Casual labour	
	Agriculture	Non-agriculture	Agriculture	Non-agriculture	Agriculture	Non-agriculture
Self-employed agriculture	4.0 (6.2)	0.9 (0.7)	0.0 (0.1)	0.0 (0.0)	1.3 (2.1)	1.3 (0.6)
Non-agriculture	5.4 (6.8)	1.6 (0.6)	0.0 (0.0)	0.1 (0.0)	2.1 (3.2)	0.8 (0.4)
Regular employment agriculture	5.2 (8.3)	0.0 (0.0)	0.8 (0.0)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)
Non-agriculture	3.1 (22.5)	0.0 (0.0)	0.0 (0.0)	0.3 (0.0)	0.5 (0.4)	0.0 (0.0)
Casual labour agriculture	4.2 (6.0)	0.5 (0.8)	0.0 (0.0)	0.1 (0.0)	0.6 (0.6)	2.0 (0.6)
Non-agriculture	5.5 (7.2)	0.6 (1.2)	0.0 (0.0)	0.0 (0.0)	2.0 (3.3)	1.0 (0.3)

Notes

Figures in parentheses are for rural females.

Source: NSS 55th Round 1999-2000, Report No. 458, Part II

Table 18 : Percentage of rural males and females by usual subsidiary economic activity II for each usual principal activity: 1999-2000

Subsidiary economic activity II						
Usual principal activity	Self-employment		Regular employment		Casual labour	
	Agriculture	Non-agriculture	Agriculture	Non-agriculture	Agriculture	Non-agriculture
Self-employed agriculture	0.8 (0.9)	0.3 (0.2)	0.0 (0.0)	0.0 (0.0)	0.5 (0.6)	0.4 (0.2)
Non-agriculture	1.4 (1.2)	0.2 (0.1)	0.0 (0.0)	0.0 (0.0)	0.5 (0.6)	0.1 (0.0)
Regular employed agriculture	0.3 (0.3)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	0.2 (0.0)
Non-agriculture	0.7 (0.6)	0.1 (0.1)	0.0 (0.0)	0.0 (0.0)	0.1 (0.1)	0.0 (0.0)
Casual labour agriculture	2.1 (2.0)	0.4 (0.2)	0.0 (0.0)	0.0 (0.0)	0.2 (0.2)	0.8 (0.5)
Non-agriculture	1.1 (0.9)	0.1 (0.4)	0.0 (0.0)	0.0 (0.0)	0.7 (0.6)	0.2 (0.2)

Notes

See Table 17

## Urban poverty

The phenomenon of 'working poor' is quite prevalent even in urban areas. The overlaps among informal sector employment, poverty, and growth of slums are evident (Mitra, 1994). Some of the studies based on micro-surveys bring out distinctly that a large percentage of slum households is engaged in low productive activities in the informal sector and leads a below poverty line life (Mitra, 2006). As we see in Table 19, the relative size of the urban informal sector is quite large across states. Even in the highly industrialized states, a large proportion of the workforce is engaged in the informal sector. The cross-classification of states in terms of the incidence of urban poverty and the relative size of the urban informal sector shows that Orissa and Uttar Pradesh correspond to relatively large classes in terms of the share of urban informal sector employment as well as urban poverty, while Assam and West Bengal are on the other extreme. Gujarat, Karnataka, Kerala, Rajasthan, and Tamil Nadu belong to the somewhat moderate classes, both in terms of poverty and informal sector employment.

**Table 19 : States distributed across size classes formed by relative size of informal sector and incidence of urban poverty**

Urban poverty %	Informal sector %				
	Below 46.5	46.5-52.7	52.7-58.9	59.8-65.1	Above 65.1
2000					
Below 13.1	Assam		Haryana		Punjab
13.1-20.6	West Bengal	Gujarat	Kerala, Rajasthan		
20.6-28		Karnataka	Tamil Nadu	Maharashtra	Andhra Pradesh
28-35.4		Bihar			Uttar Pradesh
Above 35.4			Madhya Pradesh	Orissa	

Another issue that is relevant in the urban context is the 'spill-over' effect of rural poverty. Since urban poverty is seen as a transformation of rural poverty, for a long time, much of policy focus lay on the implementation of rural development programmes. However, the elasticity of urban poverty with respect to rural poverty is found to be highly negligible, implying that many of the urban poor are not fresh migrants from rural areas, though rural poverty might have been adding to urban poverty on the margin (Mitra, 1994). All this justifies the relevance of anti-poverty programmes in the urban context, instead of concentrating on just urban basic services programmes. Productivity enhancement for the urban poor located in the informal sector is essential and this can be achieved through training and skill upgrading, credit and marketing assistance, and social security networks. In the absence of all this, the concept of pro-poor growth cannot be achieved in India.

## 8. Conclusion

On the whole, economic growth does not seem to have been generating employment opportunities for the poor on a large scale. During the 1990s, economic growth was not accompanied by rapid growth in employment. Though researchers believed that this was an outcome of rising income and other positive changes taking place in the economy, the empirical evidence was not convincing. The

withdrawal of women from the labour force, which caused a major decline in employment growth during the 1990s, was also prompted by the phenomenon of discouraged dropouts. Moreover, if withdrawal from the labour market was due to the income effect, a revival should not have occurred in 2004-05. More interesting is the fact that employment growth in the agriculture sector has revived, and has contributed to the rapid employment growth experienced during the first five years of the present century (1999-2000-2004-05).

The other feature is that some of the dynamic sectors have continued to grow rapidly, generating employment opportunities. However, most of the activities in these sectors are less likely to absorb the poor, who are mostly unskilled, and hence the direct effects of growth on poverty are still not spectacular. All this is compatible with the fact that the extent of decline in poverty after 1993-94 has been slower than the extent of decline between 1983 and 1993-94. However, dividing the post-1993 period into two sub-periods, it is observed that the extent of decline in poverty is sharper during 1999-2000 through 2004-05 compared to that over 1993-94 through 1999-2000.

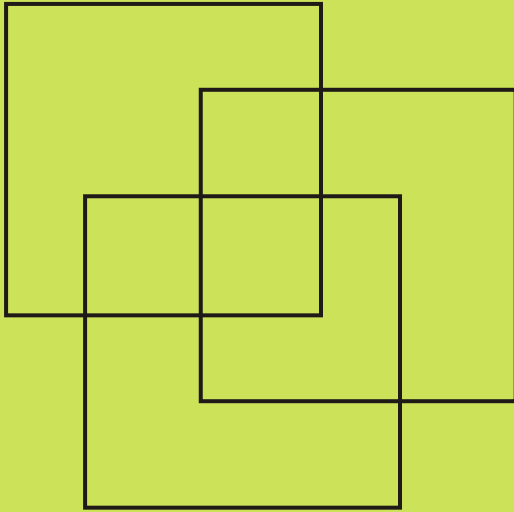
Incidentally, employment growth was sluggish during the first sub-period, though it picked up during the second, suggesting strong inter-connections between employment growth and poverty reduction. While economic growth is a necessary condition for poverty reduction, it is not sufficient, as brought out by the interrelationship between value added growth and poverty incidence across states. For the positive effects of growth to be felt on low income households, employment generation has to take place simultaneously.

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