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RURAL – URBAN TRANSFORMATION AND ECONOMIC DEVELOPMENT IN INDIA

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Abstract

The economic growth is related to a quantitative sustained increase in the countries per capita output or income accompanied by expansion in its labour force, consumption, capital and volume of trade. On the other hand, economic development is a wider concept than economic growth. According to Myrdal *"It is taken to mean growth plus change" It is related to qualitative changes in economic wants, goods, incentives, productivity and knowledge or the "upward movement of the entire social system".* An economy can grow but it may not develop because poverty, unemployment and inequalities may continue to persist due to the absence of technological and structural changes. Transformation of the economy is quite apparent from the noticeable changes that have occurred in the sectoral composition of output. In order to be people friendly, its rapid growth path is expected to contribute towards poverty eradication.

Key Words: Rural - Urban Transformation, Capital accountability, Gainful employment, Economic expansion, Technological innovations, Structural changes.

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INTRODUCTION

The existing every developmental theory has assumed a positive linkage between the social advancement and economic development on the one hand, and economic growth and social transformation on the other. Stiglitz (2003) Projected "Economic development as social transformation" implying a conceptual link between the two. The raise of concept of human development as distinct from economic development carries the view point that there is no necessary link between the two (Sharma, 2005).

A theoretical trend has appeared to explain the ecological unsustaionability of the prevailing paradigm of economic growth, leading to the concept of sustainable development. Yet, another conceptual advance is in terms of the category of social development which focuses on social security and justice. The process of the economic reforms is pre-occupied with issues of fiscal and trade policy, financial and capital accountability etc...

Transformation of the economy is quite apparent from the noticeable changes that have occurred in the sectoral composition of output. In order to be people friendly, its rapid growth path is expected to contribute towards poverty eradication. Reformation in the appalling governance structure engaged in the delivery of basic social services for the poor is simultaneously required for providing an enabling environment (Bardhan, 2005).

The present question is that whether rapid growth due to economic reforms makes a lasting impression on the problem of poverty is based on the premise that rapid growth generates gainful employment opportunities at progressively higher level of productivity and facilities faster integration of the poor into the mainstream of the development process. Agriculture and non – agricultural (Non - form) growth has immediate impact on poverty reduction.

In fact, the economic development and economic growth have nothing to do with the type of economies. According to Kindleberger, "*Economic growth means more output, while economic development implies both more output and quantity of change in technological innovation and institutional arrangements by which it produces and distributed*". Growth may well include or involves not only more output derived from greater amount of inputs but also greater efficiency i.e. an increase on output per unit of input. Development goes beyond this to imply changes in the composition of output and in the allocation of inputs by sectors. Friedman said that *growth as an expansion of the system in one or more dimensions out a change in its structure, and development as an innovative process leading to the structural transformation of the social system*.

Thus, economic growth is related to a quantitative sustained increase in the countries per capita output or income accompanied by expansion in its labour force, consumption, capital and volume of trade. On the other hand, economic development is a wider concept than economic growth. According to Myrdal *"It is taken to mean growth plus change" It is related to qualitative changes in economic wants, goods, incentives, productivity and knowledge or the "upward movement of the entire social system".* An economy can grow but it may not develop because poverty, unemployment and inequalities may continue to persist due to the absence of technological and structural changes.

The economic development must be sustainable which means that it should "keep going". The world development report 1999-2000 emphasises the creation of sustainable improvements in the quality of life for all the people as the principal goal of development policy. According to it, sustainable development has many objectives. Besides increasing economic growth and meeting basic needs, the aim of lifting living standards includes a number of more specific goals: "better people's health and educational opportunities, giving everyone the chance to participate in the public life, helping to ensure a clean environment, promoting intergenerational equity, and much more" it is very much essential in order to attain sustainable development.

As Malthus stated about the economy can be divided into agricultural and industrial sectors. It is technological progress in these two sectors that can lead to economic development thereby social transformation. Capital is invested in agricultural until where all the cultivable land is brought under the cultivation, stocked and improved. After that there are no more opportunities for increasing profitability investment in that sector due to diminishing returns. Therefore, investment opportunities are exists only in the industrial sector. Diminishing returns to increased employment in the land can be avoided only if technological innovation takes place in industrial sector is rapid enough, and if investment takes place to absorb most of the population growth in the industrial sector and to reduce the over burden on the other sector permitting the wage rates. Thus, Malthus favoured balanced growth of the sectors for economic development of the country.

The post-1991 reforms, which greatly accelerated growth and placed the status of a global economic power well within India's grasp, have come to a standstill. With the growth rate having dipped to 6.5 percent in the latest financial year (2011-12) for which we have data from the 8.5 percent level achieved during 2003-04 to 2010-11, it is important that we rebuild the momentum for reforms.

The manufacturing sector has become more competitive and efficient, major impact occurs with respect to services sector. Entry of private sector and foreign direct investment that introduced competition and state of the art technology brought a sea change in the services sector.

The boom in information technology (IT) and Information Technology and Enabled Services (ITES) sector essentially led to an era of "services-led growth" as India emerged as global hub for BPO/KPO services in the world. This shift in the pattern of off-shoring services to India was mainly due to inherent advantages of Indian IT/ITES sector. Advantage of the low wage structure, flexibility due to time zone differences and access to a larger and better talent pool provide globally active companies, India as an ideal place, to look for off-shoring services.

In the last two decades, the Indian IT/ITES industry has contributed significantly to Indian economic growth in terms of GDP, foreign exchange earnings and employment generation. Indian IT/ITES sector's contribution to the country's GDP has been steadily increasing. As a proportion of national GDP, the IT/ITES sector has grown from 1.2 per cent in FY98 to 5.2 per cent in FY07. IT to an extent has generated the employment opportunities for both skilled and unskilled labours. The direct employment in the IT/ITES sector was expected to be 2.0 million by end of FY08 and has been growing at a compounded annual growth rate (CAGR) of 26 per cent in the last decade. Studies have shown that for every one job created in the IT/ITES sector, four additional jobs are created in the rest of the economy.

Socio-economic dimension, that lends uniqueness to India's pattern of growth and economic transformation, is evident in the relative surge in the growth of industrial and services sectors vis-à-vis primary segment. India seems to have skipped the stage of development that emphasises growth in labour intensive industries with absorption of surplus labour from the agricultural sector. As transformation of industrial as well as services sector has overwhelmingly been based on capital intensive techniques requiring skilled manpower, relative shift in sectoral incomes have been devoid of any commensurate relocation of surplus labour and more than three-fifth of population continued to draw its livelihood from the primary sector.

Reforms in financial sector complimented the real sector developments. Transformation of financial sector not only assisted in sharp pick up in services sector growth, it helped the manufacturing sector to progress from a high cost to internationally competitive segment of the economy.

Table 1: India's Rural and Urban Populations over the seven decades.

Year	Absolute Terms			Relative Terms		Decadal Growth (% age)	Annual Growth	Density (per sq.km)	Sex ration years
	Rural	Urban	Total	Rural	Urban				
1950-51	29.9	6.2	36.1	82.7	17.3	13.31	1.25	117	946
1960-61	36.0	7.9	43.9	82.0	18.0	21.64	1.96	142	941
1970-71	43.9	10.9	54.8	80.1	19.9	24.80	2.20	177	930
1980-81	52.4	15.9	68.3	76.7	23.3	24.66	2.22	216	934
1990-91	62.9	21.8	84.6	74.3	25.7	23.86	2.14	267	927
2000-01	74.2	28.5	102.7	72.2	27.8	21.34	1.93	325	933
2010-11	83.3	37.7	121.0	68.8	31.2	17.64	1.64	382	940

Source: Developed from http://www.censusindia.net (the official website of Census of India).

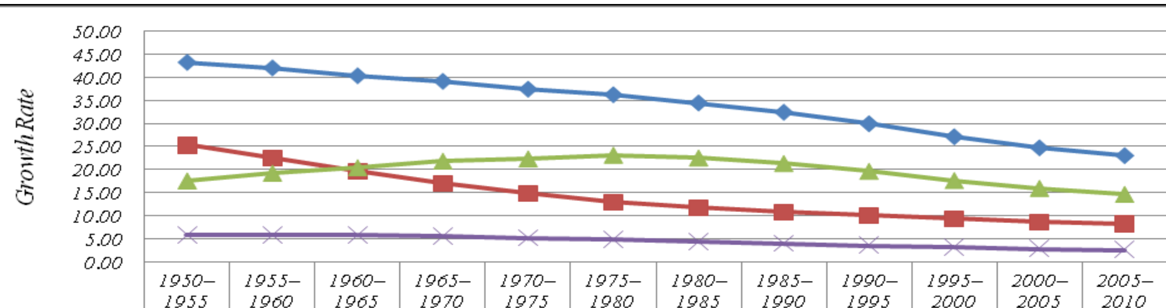
Over the years the nature of India's population has been changing. As shown below in Table 1, its urban population has increased both in relative as well as in absolute terms. From around 17 percent in 1951 it has gone up to nearly 31.2 percent. Interestingly, though the rural population of India has been decline in relative terms i.e. 82.7 to 68.8 percent from 1950-51 to 2010-11, the absolute number of those living in India's more than half a million villages has not gone down. On the contrary, it has increased quite consistently over the last seven decades.

Another important feature of India's demographics is its regional unevenness. While in some parts of South India, such as Kerala, the population has virtually stopped growing; in some other parts the rate of population growth continues to be quite high. Same is the case with sex-ratios. Though the all India average has remained, more or less, same over the past five decades.

In the language and ideology of development, India at the time of its independence from the colonial rule was largely a backward country, with low level of national income and stagnant economy. In terms of demographic distributions only around 17 percent of its population lived in urban centers. Of the 83 percent or so who lived in rural India were dependent, directly or indirectly, on agriculture (see Table 1 above).

Impact of Economic Development on Social Development Indicates

Chart 1: Details of Crude Birth Rate, Crude Death Rate, Natural Change, Total Fertility Rates



	1950–1955	1955–1960	1960–1965	1965–1970	1970–1975	1975–1980	1980–1985	1985–1990	1990–1995	1995–2000	2000–2005	2005–2010
CBR1	43.30	42.10	40.40	39.20	37.50	36.30	34.50	32.50	30.00	27.20	24.80	23.10
CDR1	25.50	22.70	19.80	17.20	15.00	13.00	11.80	10.90	10.20	9.40	8.70	8.30
NC1	17.70	19.40	20.60	22.00	22.50	23.30	22.70	21.50	19.80	17.80	16.10	14.80
TFR1	5.90	5.90	5.82	5.69	5.26	4.89	4.47	4.11	3.72	3.31	2.96	2.73

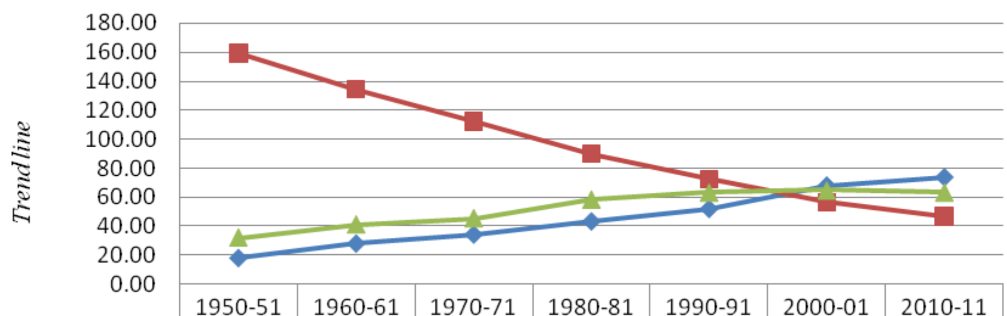
[1] CBR = crude birth rate (per 1000); CDR = crude death rate (per 1000); NC = natural change (per 1000); TFR = total fertility rate (number of children per woman); IMR = infant mortality rate per 1000 births.

The average Life expectancy of population of indicates the physical health conditions of the people. Wealthier population can afford private medical care and generally live longer, while the longevity of poor crucially depends on conditions of public health, nutrition and sanitation services. Developed countries in Europe, North America and Australia have a Life Expectancy at Birth (LEB) of over 75 years, whereas the poorest countries in Sub Saharan Africa have a life expectancy of less than 45 years. India, China and most Asian countries have seen a dramatic increase in LEB after the 1950's. In the late 1940's, on an average Indians used to live for 33 years. We then had a steady increase in life expectancy to 65 years in 2001 (see Chart 1).

Since, a transition from high mortality to a state where people generally lead a long and ailment free life is a desirable social goal, India's policies have been focused on this aspect since beginning and there has been significant improvement over the years in terms of various demographic indicators such as life expectancy, infant and child mortality and maternal mortality rates.

Our population has increased three-folds from 360 million in 1951 to 1 billion plus in 2001. The population density of India is one of the highest in the world. One of the prime factors determining the population growth is the average number of children a woman bears in her lifetime - termed as the Total Fertility Rate (TFR). The population will begin to stabilize if the TFR reaches below the replacement level of 2.1.

Chart 2: Details of percentage growth rates in literacy, IMR and Life expectancy rates.



	1950-51	1960-61	1970-71	1980-81	1990-91	2000-01	2010-11
% age of Literacy	18.33	28.30	34.54	43.57	52.21	68.35	74.04
IMR	159.05	134.30	112.20	90.05	72.65	56.80	47.00
Life Expectancy	32.1	41.3	45.6	58.6	63.5	64.9	63.5

Source: Pratiyogita Darpan – "Indian Economy" Revised Extra Issue, 2012.

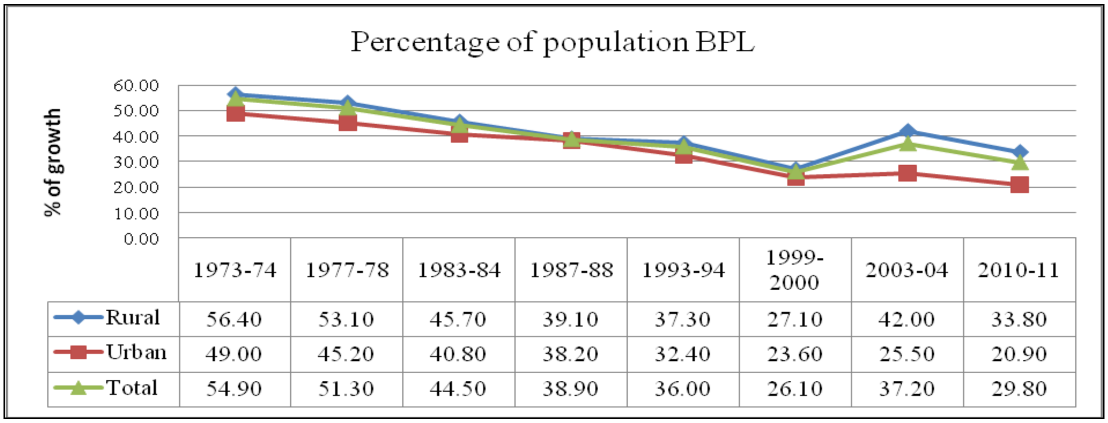
Literacy rate measures the human capital (i.e. productive skills and knowledge) of the population. More literate population generally shows lower birthrate per woman, lesser infant mortality and has better access to economic activities. In 2001 world literacy averaged to 80%, while India remained far below the average at 68.35%. The literacy growth in India has been steady but slow. Back in the 50's, the literacy rate was just above 18.33%, and since then we have seen roughly an increase of 10% per decade, with the highest 13% increase in the 90's (see Fig. 2).

Failure of states in addressing the educational access problem necessitated central intervention, and in 1976 a constitutional amendment was brought to make education a concurrent subject - i.e. a joint responsibility of state and central government. Some of the major central initiatives like partial implementation of Kothari commission report (1964), National Policy on Education (1986) etc have met with limited success. In 2000, Sarva Shiksha Abhyan (SSA) was launched by the NDA government with the objective of achieving Universal Elementary Education by 2010. Along with SSA, the Mid-day meal scheme was introduced nationwide in 2001. All these helped to substantially increase the enrollment in primary schools to 94% (Pratham ASER survey, 2005).

Another important indicator for economic developemnt is the employment rate. It is an indicator of the ability of the economy to create and cater jobs. This particular paramiter variable is not only an indix of the overall economic development but also serve as a crucial link between social and demographic determinants. Employment data for individual states has also been taken from publication on social sectors.

An important point ot remember that the nationwide Average Schooling Enrollment Ratio Survey (ASER), 2005. The survey also showed that the learning level of children is dismally poor in many states. About two-thirds of the students aged between 7-14 couldn’t read a story at grade 2 level, and about 40% of them couldn’t do basic subtraction and division. Dropout rates at primary schools still remain high. Another surprising finding is that children in some states with high enrollment like Tamil Nadu and Karnataka had very poor learning levels. The situation calls for shifting policy focus from access and enrollment to attainment and retention, to ensure that all the children enrolled learn well and complete their primary education.

Chart 3: Details of percentage of population below poverty line



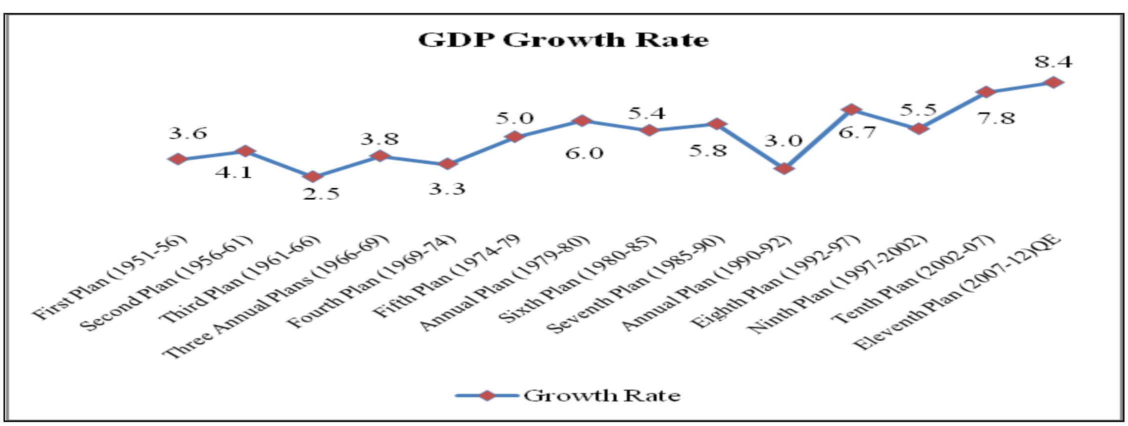
	1973-74	1977-78	1983-84	1987-88	1993-94	1999-2000	2003-04	2010-11
Rural	56.40	53.10	45.70	39.10	37.30	27.10	42.00	33.80
Urban	49.00	45.20	40.80	38.20	32.40	23.60	25.50	20.90
Total	54.90	51.30	44.50	38.90	36.00	26.10	37.20	29.80

Source: Pratiyogita Darpan – "Indian Economy" Revised Extra Issue, 2012.

The World Bank Development Indicator report (2004) estimates that roughly 1.1bn or 1/6th of the world population lives in extreme poverty, earning less than $1 per day. In India, it is estimated that about 300 million people live below the extreme poverty line. The 80's showed a significant decline in poverty: about 13% in a decade (see Fig.3).

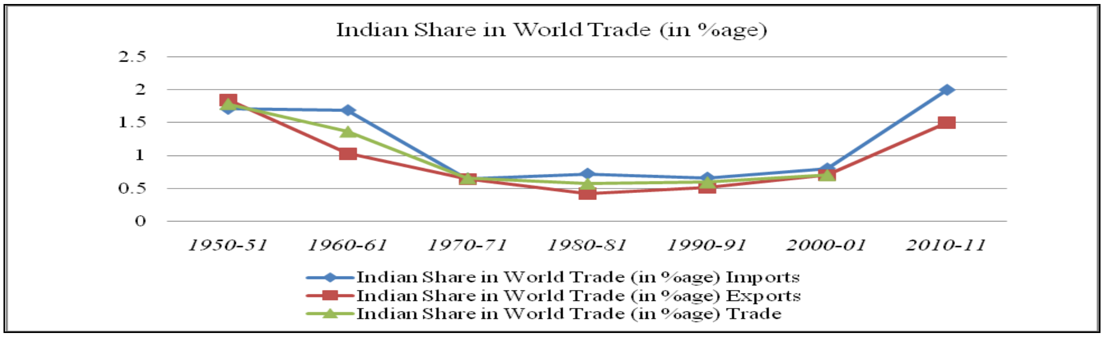
Since the reforms in the 90's, economic development has been robust and dramatic, but the poverty levels show only a marginal decline. It was only after 1998 that there was a clear indication of declining poverty. According to an NSS survey in 2005, about 27% of population lives below poverty line.

Chart 4: Details of percentage of gross domestic production growth rate



Source: Pratiyogita Darpan – "Indian Economy" Revised Extra Issue, 2012.

Chart 6: Indian share in world trade (in percentage)

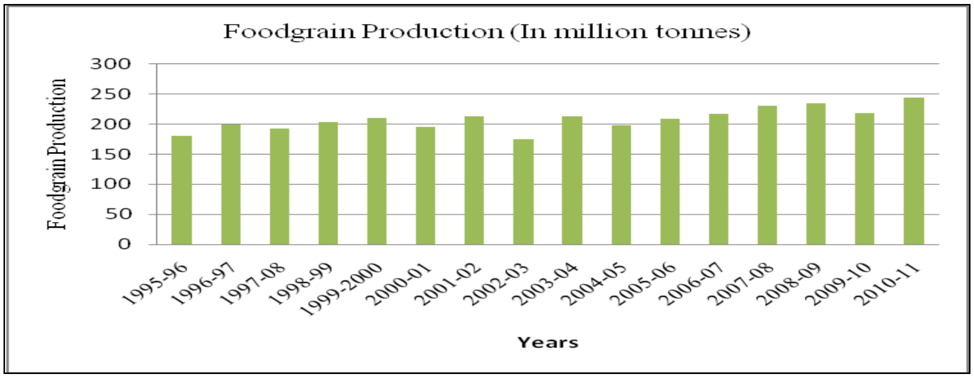


Source: Pratiyogita Darpan – "Indian Economy" Revised Extra Issue, 2012.

De-licensing of virtually all intermediate inputs and capital goods, progressive reduction in tariff rates along with permission for all current business transactions, expenses for education and medical and foreign travel enabled India to accept IMF Article VIII obligation thereby making rupee convertible on current account as early as in 1994. Further liberalization with regard to import licensing for consumer goods and reduction of tariff rate below 10 per cent (barring few exceptions, such as automobiles) considerably enhanced the outward orientation of Indian economy.

The post-1991 reforms, which greatly accelerated growth and placed the status of a global economic power well within India's grasp, have come to a standstill. With the growth rate having dipped to 6.5 percent in the latest financial year (2011-12) for which we have data from the 8.5 percent level achieved during 2003-04 to 2010-11, it is important that we rebuild the momentum for reforms.

Chart 7: Details of foodgrain production (in million tonnes)



Source: Pratiyogita Darpan – "Indian Economy" Revised Extra Issue, 2012.

The well known economist Daniel Thorner offered an interesting conceptualization of the social structure of Indian agriculture. Speaking at the Delhi School of Economics in 1955 he argued that a few landlords and moneylenders (who usually belonged to the local upper castes) continued to dominate the rural scene. The nature of existing property relations, the local values that related social prestige negatively to physical labour and the absence of any surplus with the actual cultivator for investment on land, ultimately produced a situation that perpetuated stagnation and backwardness. He described this as "a built-in depressor" (Thorner 1956:12).

Krishna Bhardwaj (1974), Amit Bhaduri (1984) and several other economists also pointed to the undemocratic nature of prevailing economic structures, which were directly responsible for perpetual stagnation of Indian agriculture. The real producers – the peasants and labourers – not only did not possess ownership rights over the lands they cultivated, they were also tied to the local landlords. Their indebtedness made them involuntarily participate in markets that were nearly completely controlled and manipulated by these dominant landlord-moneylenders. Such "inter-locking" of land, labour and product markets produced a stagnant agriculture and an authoritarian power structure.

Major Challenges Before Developeing India

Table 2: Details of Employment and unemployment with the sector wise analysis

All India Rural and Urban Unemployment Rates (64^{th} Round of NSSO)			Rate of Growth of Employment in organized Sector (Percentage per Annum)		
Estimate	**Rural**	**Urban**	**Sectors**	**1983-94**	**1994-2008**

UPS	2.2	4.5	Public Sector	1.53	-0.65
US (Adj.)	1.6	4.1	Private Sector	0.44	1.75
CWS	3.9	5.0	Total Organized	1.20	0.05
CDS	8.4	7.4			

UPS – Usual Principal Status
US (Adj.) – Usual Unemployed excluding subsidiary status workers
CWS – Current Weekly Status
CDS – Current Daily Status

Poverty in India (in %)

	Uniform Recall Period		**Mixed Recall Period**	
	1993-94	**2004-05**	**1999-00**	**2004-05**
Rural	37.3	28.3	27.1	21.8
Urban	32.4	25.7	23.6	21.7
Total	36.0	27.5	26.1	21.8

Source: Pratiyogita Darpan – "Indian Economy" Revised Extra Issue, 2012.

In terms of incidence of poverty measured on the basis of consumption expenditure, there is a definite improvement over the years, both in rural and urban areas. There is about 7 to 9 percentage points decline in poverty ratio in 2004-05 over 1993-94 and improvement being more predominant in the rural areas. While these numbers seems to suggest satisfactory improvement, divergence in income distribution has worsened further since the early nineties. Gini Coefficient, a standard measure of income/expenditure inequality, has further deteriorated in uniform recall period from 36.0 per cent in 1993 to 27.5 per cent in 2004. Similarly, in terms of mixed recall period has contributed from 26.1 per cent in 1993 to 21.8 per cent in 21.8. Per capita spending in absolute terms would suggest that there is lot more to be done to fend off hunger and malnutrition. As per NSS 61st round, per capita consumption expenditure of more than 60 per cent population was less than Rs. 20 per day in 2004-05.

According to the 2004-05 poverty estimation made by the Planning Commission, poverty level under the 30 days recall period decline from 36.0% in 1993-94 to 27.5%. The 30 days uniform recall period takes into accounted all consumption data during a 30 days cycle. As per the mixed recall period estimated using 365 days recall, the poverty level declined from 26.1% in 1999-2000 to 21.8% in 2004-05. The employment growth in the organized sector, public and private combined, has increased during the period 1994-2008. This has primarily in private sector.

Remarks & Policy Recomendations

1. Long-term poverty reduction strategies should focus on making growth more inclusive through massive investment in human capital and creating opportunities to tap the human resources there in. Recent public initiatives like NREGS (National Rural Employment Guarantee Scheme) and Food for Work are attempts to reduce poverty by using the unemployed to build rural infrastructure. There is mixed evidence for the effectiveness of these schemes that should be minimized.
2. There is need of serious consideration of the Average Schooling Enrolment Rate (ASER) survey, 2005 in that survey report it has been explained very well about the current system of education.
3. Expenditure on health sector is very low as compared to other developing countries.

CONCLUSION:

Socio-economic dimension, that lends uniqueness to India's pattern of growth and economic transformation, is evident in the relative surge in the growth of industrial and services sectors vis-à-vis primary segment. India seems to have skipped the stage of development that emphasises growth in labour intensive industries with absorption of surplus labour from the agricultural sector. As transformation of industrial as well as services sector has overwhelmingly been based on capital intensive techniques requiring skilled manpower, relative shift in sectoral incomes have been devoid of any commensurate relocation of surplus labour and more than three-fifth of population continued to draw its livelihood from the primary sector. Reforms in financial sector complimented the real sector developments. Transformation of financial sector not only assisted in sharp pick up in services sector growth, it helped the manufacturing sector to progress from a high cost to internationally competitive segment of the economy.

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