

THE INTERNATIONAL JOURNAL OF BUSINESS & MANAGEMENT

Trends in Urbanization and Employment Growth in India

Dr. Naseer Mohammed Jaffer

Professor, Xavier Institute of Management and Entrepreneurship (XIME)
Electronic City Phase- II Hosur Road, Bangalore, Karnataka, India

Dr. P. Amalanathan

Professor, Xavier Institute of Management and Entrepreneurship (XIME)
KINFRA Hi-Tech Park, Off- HMT Road, Kalamassery, Kochi, Kerala, India

Abstract:

Urbanization, employment growth and poverty removal are inter-related processes and the relationship between these processes on the one hand and economic growth on the other has been attracting attention of economists and other social scientists. In the Indian context, the percentage of urban population in the total population has been growing since 1951 and the growth during the decade 2001-2011 has been phenomenal. Demographers point out that growth of new Census Towns (CT) is a major reason for rapid increase in urban population in recent times. Structural transformation of Indian economy in which service sector grows rapidly and manufacturing sector grows only marginally is reported in studies. Informalisation of employment is increasingly reported in recent years. Informal nature of employment which prevailed in unorganized sector is spreading to organized sector also. A disturbing fact is about 93 percent of total workforce is in informal employment in India. The effects of economic growth on urban and rural poverty reduction are getting increasing attention from researchers. Urban growth is found to be a source of rural poverty reduction. These trends deserve more research attention in the context of recent policy initiatives like 'Make in India', 'Smart Cities' and 'Digital India'.

Keywords: *Urbanization, Informalisation of employment, Urban growth and rural poverty reduction*

1. Introduction

The share of employment in agricultural, manufacturing and services sector and the share of GDP of the three major sectors display significant changes as the economy experiences urbanization and higher rates of growth. Urbanization trends and patterns on the one hand and disparities in economic progress of India on the other hand have been attracting considerable attention from development economists and sociologists. Whether these disparities have been increasing or diminishing in recent years in the context of market reforms, trade liberalization and greater integration with the global economy has been debated (Sabaya sachikar and S. Sakthivel 2007 and Shetty 2000). Another dimension of this issue is the relationship between urbanization and employment growth on the one side and informalisation of employment on the other. A recent study says that while the organized manufacturing appears to be less urbanized, the unorganized manufacturing seems to be more urbanized (World Bank 2012). The study further says that India is less urbanized than other countries of similar level of development. In the context of findings of some of the earlier studies mentioned above, the present study frames the following modest objectives.

1. To study the trends of urban growth and employment growth in India.
2. To study the shifts in employment patterns.
3. To find out the trends and issues in growth of informal employment in the economy.

The Present study makes use of data from reliable sources to analyze the trends in urban growth and organized and unorganized sector employment growth. A few policy implications are also indicated.

According to the 2011 Census, the level of urbanization in India increased from 27.7% in 2001 to 31.1% in 2011. It means an increase of 3.3% during 2001-2011 compared to an increase of only 2.1% during the earlier decade 1991-2001. It is pointed out that the rate of economic growth during the 1991-2001 was roughly 6% per year which increased to about 8% per year during the following decade 2001-2011. Economic growth and urban growth seem to be mutually reinforcing and supporting trends in the economy (R.B. Bhagat, 2011). The relationship between urban growth and employment growth especially manufacturing sector growth has been getting only a limited attention of researchers.

2. Urbanization Theories and Trends

Urbanization trends and patterns have attracted academic attention from social scientists, especially sociologists and economists. A brief mention of major perspectives serves a useful purpose for the present discussion. Functionalist sociologists explain the life cycle of urban growth. Robert Park, a famous sociologist from University of Chicago says that economic competition produces certain regulations in land use patterns and population concentration. This perspective is based on human ecology- the study of relationship between people and their physical environment. Conflict theorists argue that cities grow and decline because of decisions made by capitalist class and the political elites. Karl Marx explains urban areas as areas of capital accumulation and class conflict. According to him, urban poverty, misery and crime are the results of capitalist greed and not over population. Feminist perspectives argue that urbanization reflects working, not only of the political economy but also of the patriarchy.

From the relatively limited point of view of infrastructure development and maintenance, urbanization trends are of interest in the area of economic growth and development. The recently released data on urbanization by the 2011 Indian census has brought about a new dimension of the issue. It has shown for the first time the absolute increase in urban population (91 million) is more than the absolute increase in rural population (90.5 million). The growth in urban population, which fell in the last two decades also increased in the 2011 census.

The rural urban difference in population growth and the trend in urbanization in India are given in Table 1 and Table 2 respectively.

Period	Average Annual Percentage Growth Rate of Population	
	Rural	Urban
1951-1961	2.06	2.64
1961-1971	2.19	3.84
1971-1981	1.93	4.61
1981-1991	2.00	3.64
1991-2001	1.81	3.15
2001-2011	1.22	3.18

*Table 1: Rural-Urban Differential in Growth of Population
Source: Office Registrar General India*

- Note: 1991 Population includes interpolated population figures for J&K.

Year	Urban Population as percentage of Total Population
1951	17.3
1961	18
1971	19.9
1981	23.2
1991	25.7
2001	27.8
2011	31.2

*Table 2: Trend in Urbanization – India
Source: Office Registrar General India*

- Note: 1. The 1981 census could not be held in Assam, and thus were worked out by interpolation.
2. Population includes interpolated population figures for J&K.

One of the major aspect of the latest trend in urbanization is the increase in number of census towns (CTs) from 1362 in 2001 to 3894 in 2011. A settlement to be classified as a new CT, the following three conditions has to be satisfied.

1. Density of population should be more than 4000 per Sq. Mt.
2. Population must be more than 5000 and
3. Male non-agricultural workers should be more than 75% of total workforce.

About 29.5% of the urban growth between 2001 and 2011 is due to reclassification of rural areas in CTs. There is a wide variation in the share of urban growth attributable to reclassification among the states of India. There is a highest growth in Kerala (93%) followed by West Bengal (66%). The lowest contribution is found in the case of Chhattisgarh (4%) and Madhya Pradesh (9%). It is found that the extent of rural-urban migration in the last decade is similar to the migration rate obtained in the previous three decades that is around 22%, even though the rural urban differences in significant economic variables have been growing over the years. It means that the growth of urbanization is more due to reclassification of areas as CTs than due to internal migration.

The “push and pull” factors operate to explain the internal migration in the country in the sense states and regions which offer higher employment and income earning opportunities attract and regions which do not offer such opportunities repel migrants. And there are also other unexplored areas of inquiry and unanswered questions.

3. Sectoral Share of GDP and Employment

The share of employment in agricultural, manufacturing and services sector and the share of GDP of the three major sectors display significant changes as the economy experiences economic growth over a period of time and these trends are known as structural transformation of the economy. This process has received considerable research attention from economist and sociologists in their theories in the field of development studies. With the progress of the economy there is a movement of working population from agriculture to manufacturing sector and the later to services sector.

In his famous model, "Economic Development with Unlimited supplies of Labour", Prof. Arthur Lewis observes that the economic surplus generated in the course of development of an economy will be reinvested to increase labour productivity; first in agricultural sector, then in manufacturing industry, and finally in service sector. Development economists in general, recognize the historical pattern in which the share of agriculture in GDP and employment falls, the share of manufacturing in GDP and employment raises next, and finally the share of services sector in GDP and employment rises as the economy grows. It will be interesting to know whether such a structural transformation has been happening in India.

There are several studies which explore the relationship between sectoral share of GDP and employment as India's economy experiences the growth at national and regional levels. These studies point out that in a broad sense the share of agricultural sector in both GDP and employment has been falling since 1960-61. The share of manufacturing sector has been rising only marginally. Unlike most developed countries, India witnesses a phenomenon in which there is a significant increase in the share of services sector in the recent years.

The share of agricultural sector declined from 33% in 1990-91 to 15% in 2009-10; the share of manufacturing industry increased marginally from 24% to 26% and the share of services sector increased from 43% to 57% during the same period in India. The change in pattern of employment also provides an interesting picture. In 2009-10, the share of agriculture in total employment in India was 53 %, the share of manufacturing industry was 21.7% while the share of services sector was 25.3%.

Higher level of labour productivity in services sector in GDP is more than double its share of employment. One positive feature in the structural transformation happening in India is that for the first time there has been an absolute decline in the number of workers engaged in agriculture since 2005, and the decline has become faster since 2010. Economic growth in India in recent years has not generated adequate employment, a situation often described as "Jobless Growth". India's development in the past 20 years has been mainly due to growth in service sector.

Within this sector, the growth has been mainly concentrated in skill intensive areas like software development, outsourcing, financial services, and other related IT based activities rather than on labour intensive traditional fields. This level of growth led to high levels of wages to high skilled educated sections of the workforce, leaving behind workers in agricultural and other areas mostly in unorganized and informal sectors.

4. Informalization of Employment

Informal or unorganized employment is defined as those working in the unorganized enterprise or households, excluding regular workers or those with social security benefits, and the workers in the organized or formal sector without any employment/social security benefits provided by the employer. India is the world's second largest emerging economy, with 15% of the global labour force, and has an impressive growth record over the last two decades. However, rapid growth has not transformed the labour market and employment conditions in the country.

Employment grew merely by 0.5 per annum from 2004-05 to 2011-12 – the period that saw the highest growth of GDP by 8.5% per annum. Close to 276 million workers lives below a poverty line of \$2 per day, and their bargaining positions have declined despite economy growth. Amitabh Kundu and PC Mohanan (2010) argue that institutional and social barriers have resulted in labour market segmentation which has come in the way of dissemination of the benefits of growth to workers in backward regions, small towns, rural areas and underprivileged socio-economic categories of population.

The formal industries and business owe their growth and profitability partly to employing workers in an informal basis without their being covered under social security system. Their growth is facilitated by informal industries supplying semi-finished products at cheaper rates and emergence of a low cost support system. A decreasing share of workers compensation in rapidly growing sectors reveals direct and indirect engagement of unorganized workers with very little increase in informal employment. The present social security system covers less than 10% of the total workforce, mostly belonging to the formal sector. Informal sector in recent years has experienced some types of formalization leading to employing people on a regular basis.

5. Shift in Workforce from Unorganized to Organized Sectors

In development studies, the distinction between organized and unorganized sectors and between formal and informal employment has been made and analyzed. Generally, all enterprises coming under the domain of government departments, public sector, public and private limited companies and co-operatives are defined as organized sector. The remaining enterprises fall under the category of unorganized sectors. However, there is no universally accepted definition of organized and unorganized sectors. Employment in organized sector brings more benefits to the workers than in unorganized sectors. The share of employment from organized is only 16% and the remaining 84% of the workforce forms unorganized segments of the economy. The little rise in employment in organized sector (from 13.6% in 1999-2000 to 15.8% in 2009-10) has happened in the category of informal employment in the organized sector. Traditionally informal nature of employment prevails in unorganized sector of the economy, and now its prevalence is spreading to organized sector also. This phenomenon of informalisation of employment even within organized sector causes concern.

Table 3 gives the composition of formal and informal employment within a few areas of organized sector:

Sl. No.	Sector	Organized Sector Employment	
		Formal	Informal
1.	Agriculture	0.13	2.62
2.	Manufacturing	5.36	10.73
3.	Mining	0.92	0.94
4.	Electricity, Gas and Water supply	0.89	0.24
5.	Construction	0.66	14.21
6.	Non-Manufacturing	2.47	15.39
7.	Trade	0.49	2.49
8.	Hotels and Restaurants	0.15	0.76
9.	Transport, Storage and Communication	2.73	2.15
10.	Banking and Insurance	2.04	0.89
11.	Real Estate	1.41	1.00
12.	Public Administration	8.15	1.30
13.	Education	6.18	2.99
14.	Health	1.43	0.77
15.	Other Services	0.26	0.98
	Total of All Sectors	30.81	42.07

Table 3: Formal and Informal Employment within Organized Sector, 2009-10 (in Millions)
Source: NSS 66th round, 2009-10

The shift in the share of output and employment from agriculture to industry and then from industry to services sector has been witnessed by most countries in the development process. Since India joined relatively late in the development process, it is experiencing service sector led growth in recent years. The shift of employment from unorganized to organized sectors has been slow and uneven in India. What is fast and predominant is the phenomenon of informalization of employment, even in the organized sector. In this sense, India is different from other emerging market economies. About 93% of total workforce in the country is in informal employment compared to 55% in Brazil and 31% in China.

It was ironical that the issue of social security for the informal sector workers was not raised until IXth Five Year Plan was made. The subsequent plans have been giving considerable importance to social security benefits for informal sector workforce, which is predicted to increase in size.

6. Urbanization, Employment and Poverty

The link between urbanization, employment and poverty reduction has been analyzed by development economists in recent years. For example, a World Bank study (2011) points out certain broad relationships. Organized sector employment moves away from urban areas to semi urban and rural areas and urban employment is getting more and more informalized. One major reason for this trend is high land prices in urban areas and incentives provided by government agencies to encourage industries in backward areas also contribute towards this trend. Another fact pointed out in the study is that there are wide regional differences in the decline in urban poverty in India. For example, urban poverty declined from 41.4% in 1983 to 28.3% in 1993-94 and to 13.3% in 2004-05, compared to Bihar where it was 58.7% in 1983 which declined to 40.7% and to 36.1% in 1993-94 and 2004-05 respectively. Poverty level in small towns is relatively higher compared to both predominantly rural areas and urban areas. One major reason is that small towns have less access to services. There is a broad inverted U-shaped curve relationship between poverty and size of population. It means that poverty level first rises and then falls in the population size. Another interesting trend found in recent years is that urban growth is a source of rural poverty reduction. For example Datt and Ravellion (2009) pointed out that there is an increasing link between economic growth and reduction of rural poverty. It follows that the positive effect of urban growth on rural poverty reduction will have over-all poverty reduction in the country. It may be pointed out the recent initiatives by the government to develop 'Smart Cities' one step in the right direction. Recent reports mention that about Rupees one lakh crores will be spent on smart city development and Atal Mission for Rejuvenation and Urban Transformation (AMRUT), the role of private sector players in the exercise is also emphasized.

7. Conclusion

India is one of the fastest growing large economies in the world. There is a high degree of expectation both at national and international levels as more economic reforms and more effective implementation of these reforms will increase growth and development in the Indian economy after change of at the Centre in May 2014. The National Institute for Transforming India (NITI Aayog) has replaced more than six decades old Planning Commission. The Center's new initiatives include Make in India, Swachh Bharat, Pradhan Mantri Jan Dhan Yojana, Beti Bachao - Beti Padao, Smart cities, Housing for all by 2022. Direct Benefit

Transfer(DBT), Digital India, Skill India, Financial inclusion through payments by banks and small banks, and Pradhan Mantri Krishi Sanchayee Yojna. After a period of Jobless growth in the past, there is new source of employment in recent years. However, there is informalisation of work force in India. Even within the organized sector, the share of informal employment has been growing. It is disturbing to note that more than half of employment in organized manufacturing sector remains informal in nature. Technology may be the major force which marginalizes labour in general and informal labour in particular. Unprogressive labour laws may be another major reason.

The relationship between economic growth, urban growth, employment growth, poverty reduction and informalisation of labour is an area which needs further research and debate. Efforts in this direction are necessary to frame appropriate policies to achieve broad objectives of economic growth and social development.

8. References

- i. Amitab Kundu and PC Mohanan, Employment and inequality outcomes in India, 2010, <http://www.oecd.org/employment/emp/42546020.pdf>
- ii. Appleton, Lynn M. (1995): 'The Gender Regimes in American Cities' in Judith A. Garber and Robyne S. Turner (eds), *Gender in Urban Research*, California Sage.
- iii. Bhagat R.B. (2011): 'Emerging Pattern of Urbanization in India' *Economic and Political Weekly* 46 (34): 10-12.
- iv. Drez, Jean and Amartya Sen (2013): *An Uncertain Glory- India and its Contradictions*, New Delhi, Allen Lane.
- v. Hayami, Yujiro and Yoshihisa Gada (2006): *Development Economics* New Delhi, Oxford University Press.
- vi. <http://www.ihindia.org/ILERpdf/Highlights%20of%20the%20Report.pdf>
- vii. *Journal of Income and Wealth*, Volume 30, No 1, 2008, based on NSS surveys of 1999-00 and 2004-05.
- viii. National Commission on Enterprises in the Unorganised Sector (2006) *Report on the Condition of Work and Promotion of Livelihoods in the Unorganised Sector*, NCEUS.
- ix. Park, Robert (1936) 'Human Ecology', *American Journal of Sociology* 42: 1-15.
- x. Sabayasachi Kar and S. Sakthivel (2007) 'Reforms and Regional Inequality in India' *Economic and Political Weekly*, March, 7.
- xi. Sivaramankrishnan, K. C. Amitabh Kundu and B.W. Singh (2005): *Handbook of Urbanisation in India: An analysis of Trends and Processes* New Delhi. Oxford University Press, Chandrasekhar S. (2011)
- xii. Shetty S.L. (2000), Growth of SDP and Structural changes in State Economies; Inter-state Comparisons 'Economic and Political Weekly' Dec. 2014
- xiii. Walia M.S (2000), 'Economic Performance of States in Post-reform Period', *Economic and Political Weekly* May, 2000.
- xiv. World Bank (2012): "More and Better Jobs in South Asia", Washington D.C. World Bank
- xv. World Bank (2011): 'Perspectives on Poverty in India' Washington D.C. World Bank.
- xvi. Datt G. and Ravallion R. (2009) "Has Poverty in India Become less Responsive to Economic Growth?" Washington D.C. World Bank.