CHAPTER I

INTRODUCTION

Agricultural growth is the key factor to achieve speedy economic development. Agriculture contributes 27.5 percent to the Gross Domestic Product. It is a source of livelihood to nearly 75.83 percent of Indian population.¹ In rural India, self employment, regular salaried employment and casual employment are the major categories of employment. In addition, rural employment has two major divisions' viz., employment in agriculture and non-agriculture. Available data in employment shows that in rural areas 76.1 percent are in agriculture and 23.9 percent in non-agriculture. The dependence of more people on agriculture is considered as a major problem of economic development.

Population explosion and the corresponding growth of rural work force are the serious issues in the employment situation of our country. Definitely agriculture will find it difficult to absorb all of them and it results in rural under-employment, unemployment, disguised unemployment etc. According to Ragnar Nurkse and W.A.Lewis, the mobility of surplus agricultural labourers to the non-agricultural sector is a remedy to the problem.

The antithesis given by A.M.Khusro\textsuperscript{2} is that “If the demand for labour in the non-agricultural sector is not sufficient to absorb the supply of labour from within that sector, then the precepts of the recent theories of development about population transfers have to be modified.... Two fundamental questions thus arise. If the door is closed, even though temporarily, for any net absorptions of agricultural population in non-agricultural jobs, what is the solution for underemployment and disguised unemployment in the agricultural sector? Secondly, if population is not transferred and food is not released, how is the non-agricultural sector to get its annual increment of raw materials and food for the annually growing labour force within that sector? The answer to the first would seem to be increased employment within agriculture rather than in the other sector; the solution to the second is increased productivity of agriculture. Since increased productivity depends on capital formation in agriculture, the obvious solution to the dual problem of low productivity and low employment is to use the underemployed labour in the agricultural sector to build capital within that sector rather an attempt to transfer it to the non-agricultural sector”.

Pranab K.Bardhan\textsuperscript{3} explains that the models of economic development have made standardized assumption of horizontal or perfectly elastic rural labour supply curve at a given wage rate. But according to him the market for agricultural labour is primarily determined by economic, social, and demographic constraints and not by the wage rate. He makes it clear that the labour supply


function is more a vertical line than the horizontal one. Such tools are used in positing an unlimited supply of labour migrating to the industrial sector at a given industrial wage rate in dual economy models devised for describing a certain stage of the development process or for prescribing shadow prices, its use for agricultural wage determination in the rural sector itself is also not uncommon.

There is a significant relationship between technology and labour use. In the choice of technology Hans Singer promulgated six determinants of technology i.e., existing technologies: the 'technology shelf', from which technologies are selected, transferred and disseminated; a country's ability to adapt existing technology to its own special or changing conditions; a country's capacity to create national or indigenous technology suitable for and specifically geared to a country's objectives and circumstances; the state of factor prices and other incentives facing decision makers; income distribution, which determines the effective market demand for various products and sectors; the nature and situation of those who make decisions about technology to be used in concrete projects. Among the determinants, the first three are supply side while latter are demand side. These factors should be considered while selecting an appropriate technology for development.

In the selection of technology, labour intensive technology is better for labour surplus countries like India. Such a technology has definite potential to increase employment opportunities and income of the rural people.

If labour-absorbing technology is selected to labour-displacing one, and if labour is used for capital construction, it meets the requirements of increased productivity as well as employment, without having to indulging in costly population transfers. Since agriculture happens to be an important sector, with a small additional amount of fixed capital, it is possible to achieve a relatively large output can be generated. As a result the recipients who are agricultural labourers remaining in their villages can create sheltered market for them. This would help them to assimilate, adapt, and perform transmission of knowledge given to them.5

However, it is practically observed that even in labour intensive methods of cultivation the marginal productivity of labour is becoming almost zero. According to Douglas, "agriculture comes to be characterized by diminishing returns, particularly when the functional relationship between labour and other agents of production, that is, land, capital and enterprise, is not conducive to the best use of the labour."6 This actually caused manifestation of poverty, and poor nutritional level of rural people.

6 DOUGHLAS, Theory of Wages, as quoted in RATNAWAT, B.O., Agricultural Manpower and Economic Development, (Popular Prakashan Bombay, 1975), p.3
In the rural areas the major economic activities are often irregular and sporadic with pronounced seasonal fluctuations leading to periodic entry and withdrawal from the labour force, especially on the part of marginal labourers, often women, who shift back and forth between what is reported as domestic work and gainful work. The poor economic status of rural people has forced them to use their children for some work. Such withdrawal of children from school is another dimension of problem persisting in the rural areas. All these facts articulate for protection and sympathy from the government to safeguard the rural population in our country.

In India, the New Economic Policy (NEP) was introduced in July 1991 for achieving economic stability and structural adjustment as per the directives of International Monetary Fund (IMF). The New Economic Policy is a quick response to sudden exigencies in the external sector and as a compliance of the IMF conditionality. It was not for a full package of economic reform and therefore it does not cover all the sectors in an integrated fashion. In the labour front an exit policy has been introduced without a corresponding integrated plan for labour absorption in new industries and agriculture. In fact, the agricultural policy has never been an integral part of the New Economic Policy.

It is observed that the NEP was introduced as per the World Banks country report for agriculture like a set of recipes for implementation by the Government of India:

1. "Priority attention to research irrigation, resource management-forestry, land reclamation and management, drainage etc., rural infrastructure, and training and education;

2. Elimination/reduction of industrial protection. This will involve elimination of input subsidies; reduction of government market interventions; restructuring domestic price incentives, opening up of agricultural trade to international market signals and reduction of trade controls;

3. Restraining the food subsidy to end coercive procurement arrangements, to reconsider the role of the Corporation of India, to review stock levels and management of food grains and to revise prime support objectives and interventions;

4. Scrapping of the Maharashtra Cotton Monopoly scheme and restriction of the Cotton Corporation of India's price support operations;

5. Concentration on those areas where the public sector has a clear and unequivocal role (incentives, infrastructure development, research, food security) and directing government research and interventions towards improving the quality and management of these activities;

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6. Cutback of government involvement in areas where its operations are less critical and where there are alternatives like input production and marketing, public tube wells, output marketing and trade;

7. Government cutback on heavy regulation of economic activities and levies from licensing of small fertiliser traders to trade on rice millers and sugar processors, regulations which according to the World Bank only to increase market costs and inefficiencies; and

8. Complete withdrawal of all input subsidies to agriculture, including implicit credit subsidies, removal of all curbs on exports and imports of agricultural commodities and reorientation of the Government’s programmes and intervention in the agricultural sector towards a greater role for market forces.”

With regard to the NEP there is a criticism that they have not focused sufficiently on what needs to be done for agriculture. There is considerable validity in this criticism and this imbalance needs to be corrected. A very large proportion of our population will therefore continue to depend upon agriculture and their living standards cannot improve unless agriculture registers higher rates of growth. Agricultural development is important not only for those directly or indirectly dependent on agriculture. This sector also has the potential to unleash a virtuous circle of growth and poverty alleviation which is essential to put the economy on a trajectory of 8 per cent growth. For this, agriculture must register at least 4 per cent annual growth based on promoting efficient, equitable and
sustainable use of resources. All this calls for a comprehensive reform agenda in agriculture, encompassing incentives, infrastructure, technology and institutions.9

In order to eliminate the adverse external conditions and self-inflicted imbalances, many developing countries have promulgated the reforms. Accordingly programmes are implemented which aims at removing trade barriers, revamping the tax system, restructuring government spending, spurring financial liberalization, privatizing state-owned enterprises, or some combination of these. Over the last two decades, reform programs have more often than not been supported by adjustment credits and loans from the World Bank. Earlier assessments compare the change in the economic performance of countries with and without programmes supported by the World Bank or the International Monetary Fund and concluded that these programmes increase the economic growth.10

The new economic policy does not give importance to agriculture as it gives to other sectors of the economy in its programmes.11 According to Vyas12 the liberalization and structural adjustment are not related to agriculture. The basic


1 ALVARO FORTEZA and MARTIN RAMA, Labor Market “Rigidity” and the Success of Economic Reforms Across more than One Hundred Countries, Departamento de Economía, Universidad de la República (Uruguay), and Development Research Group, World Bank, RPO 680-96, 2002, pp 1-9.


objectives of economic reform are to achieve rapid economic development to improve the living standards of our people and to eliminate poverty.

Economic growth, especially broad based growth, encompassing growth in agriculture, is a major solution to the poverty problem. Since the programme is not enough it has to be supplemented by some direct measures to alleviate poverty in select pockets which may not be touched even by broad based economic growth. There is no need to change this basic perception of our objectives, though in the light of more recent experience and thinking, we need to add concern for the environment and for a broad definition of human development including participation of excluded groups and protection of human rights as additional objectives.

In India, reforms become necessary because the earlier regulatory models of development, which have been followed for several decades after Independence, do not deliver results up to expectations. There have been important achievements during this period, notably the increase in food grain production by using the green revolution technique, development of a broad base for industrial development, increase in life expectancy and the creation of an impressive reservoir of scientific and technical personnel. However, the growth rate of the economy remained much below targets and progress in poverty reduction is very limited. In terms of basic social amenities such as safe drinking water, sanitation facilities and primary education, our achievements are also far from satisfactory.
Such reforms are aimed at closing the gap between India’s potential and actual performance. Many developing countries in East Asia, with very different social and economic systems, are able to achieve a rapid rate of economic growth over extended periods and to reduce poverty dramatically. India is capable of achieving this potential. It is time to initiate the second generation reforms, based upon what have been achieved and what we have learnt in the first stage.

Economic Reform is related with liberalization and it is better described as encouragement of free and fair competition in all economic spheres as a spur to efficiency and growth. The negative aspects of liberalization are decontrol, deregulation and lesser government intervention and involvement. These “liberalization” initiatives are important, but they are only a part of the agenda for increasing free and fair competition. Reforms have to be supplemented with positive efforts to create the institutions that can make competitive markets function and to make sure that all sections of society have access to the market economy and the opportunities it creates. Such new programmes should accompany schemes aiming at those to whom the markets cannot help in removing poverty and other inherent problems.

India is marginalised in the globalised world. Globalisation is an unavoidable process which takes place independent of our efforts. There is no room in a globalised world for an economy to be de-linked from world trade and foreign investment. The truth is if India does reform rapidly and increased its competitiveness India will be marginalized.
Another common criticism of economic reform is that it amounts to a Laissez Faire philosophy in which there is no role or only a minor role for the government and it implies the abandonment by the government of any responsibility for the outcome. It is not correct that economic reform does not imply a minimized role for the government. It means that the role of government away from government ownership and intervention in economic matters and towards greater attention to social and economic infrastructure and to law and order, efficient justice, rule of law and, in general, to better governance. Even in the economic sphere, the government has a formidable and indeed daunting responsibility to maintain a sound fiscal and financial framework, and to establish an appropriate environment in which markets can function.

The labour market is one of the main channels through which globalization can affect developing countries. Increased import permeation, export sales, competition in services, foreign direct investment and exchange rate fluctuations prompted by international capital movements could all, in principle, have an impact on employment and labor earnings. A common concern is that “cheap” labor and the “race to the bottom” may be the flip side of globalization. To become more competitive, countries may need to dismantle their trade barriers, abolish their legal monopolies, privatize their state-owned enterprises and reduce over-staffing in their overfed bureaucracies.

The evidence on all these positive and negative effects of globalization on the labor market abounds. Lacking in this picture of comprehensive globalization
is the policy debate has taken strong ideological biases from all sides. For some, all the fuzz about the negative impact of globalization on workers is just a disguise to support protectionism and to introduce new obstacles to the free flow of goods, services and capital across countries. The adverse effects of globalization are large enough to justify an immediate policy response, under the form of additional labor market regulation and more generous social security programs, supplemented by sanctions for those countries that fail to comply. This perspective often exaggerates the effectiveness of labour market interventions in developing countries, and minimizes some of the side effects of both domestic interventions and international sanctions.

The immediate effects of globalization on the labor market are on salaried employment and wage earners. It does not mean that the poor will have much too gain from globalization. From a political perspective, salaried workers in formerly protected activities or in the public sector are one of the social groups more able to articulate and convey its grievances. Alienating this group may delay the opening up of the economy and the adoption of much needed economic reforms. The key issue, therefore, is finding cost-effective ways to mitigate the adverse effects of globalization on salaried workers, while making it work for the poor.13

The draft farm policy is an appended one which seeks to globalize the Indian agriculture by exporting more agricultural products in order to reduce the burden on land by developing agro-industries; and to ensure both investment and

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more credit flow. It focuses on both production and productivity and declares to make agriculture a profitable profession. In the New Economic Policy, the government proposes profitable price to agricultural produces and to reduce subsidies step by step. The new farm policy advocates for a market-oriented agricultural sector where supply and demand would be based on productivity and profit.  

STATEMENT OF THE PROBLEM

Employment situation in the rural areas needs a closer examination because of the growing casualisation of rural work force. In the absence of adequate and timely availability of other types of employment in the rural areas, agricultural labour is the major form of rural employment opportunity to the people in the country. In the rural areas, the pattern of employment has changed due to modern technology and non-farm employment. The new technology in agriculture adversely affected the relative share of labour in output. The women labourers are severely affected in the rural employment scenario. Poverty and poor nutritional level of the masses are the burning problem in rural India. The rural people in our country are required to face yet another challenge by way of the New Economic Policy.

The New Economic Policy advocates for reduced public spending. In rural areas the appetite for more public spending is observed. But in the New Economic Policy no such provision is seen. The new farm policy drafted in line with the

New Economic Policy recommends for the reduction of subsidies on agriculture which would certainly increase the price of inputs like fertilizer, seeds etc. Another clap of stabilization policies is the elimination of priority sector concessional bank loans. No doubt this would affect the investment pattern in agriculture. Expansion of agro-industries and revamping of cottage industries in the New Economic Policy would worsen the position of agricultural labour.

The demand and supply of agricultural labour is different from other types of employment. The diversity of agricultural labour market has brought unemployment, under-employment and disguised unemployment in rural areas. The position of rural areas in general and agricultural labour in particular needs a unique policy for rural employment generation. Otherwise the deterioration on the condition of rural labour will be further worsened. In these circumstances an attempt is made in this Thesis to analyse the impact of the New Economic Policy and Rural Employment in the Thanjavur District of Tamil Nadu.

OBJECTIVES

The major objectives of the study are:

1. To study the impact of New Economic Policy on rural employment.
2. To examine the pattern of rural employment.
3. To analyse the diversification of rural employment.
4. To study the actual rural employment situation in the sample villages.
5. To analyse the labour supply and labour market participation in the sample villages.
6. To suggest measures for removing rural unemployment.
HYPOTHESES

The important hypotheses of the study are:

1. There is a significant increase in the rural employment during the post-reform period.

2. Labour productivity has increased due to application of modern inputs in the post reform period.

3. There is a positive correlation between agricultural and non-agricultural employment in the sample villages.

4. There is a significant relationship between income from agriculture and non-agriculture in the sample villages.

METHODOLOGY

The database for this research study consists of both primary and secondary data. Thanjavur district is purposively selected for the present research work. The district is chosen because it is called the rice bowl of Tamil Nadu. In the district, the marketing of agricultural products are easy, and the area has adequate water supply resources to facilitate farmers in the adoption of new technology.

The present study is conducted in two taluks of Thanjavur District viz., Pattukottai and Peravurani. Then two villages in each of the selected taluks are randomly chosen for the present study. The selected villages are Thiruchitrambalam and Kalathur in Pattukottai Taluk and Veerayankottai and Kuruvikkarambai in Peravurani Taluk. In the selected villages the sample size was be determined by using random sampling method.
Table 1.1

The Details of Sample Population in the Sample Villages of Thanjavur District.

<table>
<thead>
<tr>
<th>Sl. No</th>
<th>Name of the sample village</th>
<th>Total population</th>
<th>Sample population</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Thiruchitrambalam</td>
<td>1437</td>
<td>144</td>
</tr>
<tr>
<td>2</td>
<td>Kalathur</td>
<td>1508</td>
<td>151</td>
</tr>
<tr>
<td>3</td>
<td>Veerayankottai</td>
<td>867</td>
<td>87</td>
</tr>
<tr>
<td>4</td>
<td>Kuruvikkarambai</td>
<td>1355</td>
<td>136</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>5167</td>
<td>518</td>
</tr>
</tbody>
</table>


The sample population details are given in Table 1.1. In this study, ten percent of the total village population was selected, consisting of 144 out of 1437 in Thiruchitrambalam, 151 out of 1508 in Kalathur, 136 out of 867 in Veerayankottai and 136 out of 1355 in Kuruvikkarambai. Altogether, the total sample population is 518 to the total village population of 5167. The selected sample population was interviewed with a specially prepared and pre tested questionnaire. Finally statistical tools like Karl Pearson’s correlation coefficient, ANOVA and t-test are used to test the validity of hypotheses. The study covered the period from 1990-2002.
CHAPTERISATION

The first chapter deals with introduction, statement of the problem, period of the study, objectives, hypotheses, methodology and plan of the study.

In the second chapter, a review of available literature on the research topic is presented. The available studies collected have been classified topic wise covering inputs use and agricultural productivity and technology and agricultural labourer.

The third chapter dwells upon the profile of the study area. It provides the general information about Thanjavur district, sample taluks, and the sample villages covering factors like geographic location, topography, soil conditions, and rainfall and irrigation facilities. The general agro-economic situation of the district is presented in the chapter.

Fourth chapter deals with the New Economic Policy and rural employment. In this Chapter, a brief analysis of rural employment scenario in the light of New Economic Policy with necessary data will be analysed.

An analysis of the socio-economic conditions of the sample farmers, results of various statistical tools, and test of hypotheses are presented in the Fifth chapter.

The sixth chapter deals with the summary of the thesis and suggestions.
CHAPTER II

REVIEW OF LITERATURE