

## Structure of an Underdeveloped Agrarian Economy

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Since independence the striking feature of India's development is the continued dependence of a vast majority of the growing population on agriculture for their livelihood, in spite of aggregate output growth rate of around 4 per cent a year up to the 1970s and close to 6 per cent a year thereafter. During this period, however, the dependence of the population on low-productivity subsistence agriculture has decreased but only marginally. Lewis (1958) examined the problem of duality (coexistence of a large labour-surplus subsistent agricultural sector along with a small but modern industrial sector) for the first time. His model suggests that with the agricultural growth in the economy, migration of labour from agriculture to industry will allow a modern sector to expand and absorb productively the surplus labour in agriculture. This necessitates the "structural transformation" of the economy for which he had indicated a pathway for the transformation. The breaking of this duality is essential for the development of any largely subsistence economy.

It is evident that after the consistent supply of food for urban population, the rural area remained isolated of the urban counterpart. In the phase of growing urban economy this isolation meant the increase in dualism in the economy, which can also be termed as structural retrogression. This separation would not have been important much if the isolated subsistence economy was reducing. The rural economy (with low productivity) had to cater to the large urban economy creating an immense problem of distribution both within the rural as well as between the urban and rural. The existence of regional disparities is a by-product of this phenomenon.

Madhya Pradesh had the highest per capita income of Rs.1, 529 during the early years of the 1980's decade among the six major low income states in India. Although by the end of the 1990s, Rajasthan had replaced Madhya Pradesh in that position,

The industrial component of the Madhya Pradesh economy is much larger than in Bihar, Orissa and Assam and a little larger than in Uttar Pradesh and Rajasthan, helping it to enjoy a relatively higher per capita income level. The secondary sector of the state used to contribute 24.3 per cent to the SDP compared to 25.9 per cent for India during the beginning of the 1980s and, even more strikingly, by the end of the

1995-96s the secondary sector income was 31.5 per cent of SDP in Madhya Pradesh as compared to a lower share of 31.4 per cent for India.

The level of urbanisation in Madhya Pradesh was as high as 26.7 per cent in 2001, compared to a little higher urbanisation rate of 27.8 per cent for India as a whole. Madhya Pradesh is as urbanised and industrialised as the overall Indian economy, in spite of being a low income state. These are the reasons precisely, when the reform process was initiated in 1990's, it was envisaged that the state would get benefits from the new development strategy and soon it will no longer be a low income state. But the reforms have not helped the Madhya Pradesh economy much if we compare the growth performance of the state with the national economy.

It attained a marginally higher growth rate of 4.8 per cent a year during the 1980s and mid 1990's, compared to its growth rate of 5.1 per cent a year during 1980's, but during both the decades, the growth rate of the state's economy had been lower than the national growth rates. During the 1980s, the difference between the growth rates of Madhya Pradesh and national economy, 5.1 per cent and 5.4 per cent a year respectively was rather small but during the 1990s, the growth of the state's economy was much smaller than the national average (4.8 per cent vs 5.3 per cent). A clear conclusion that emerges from this comparison of aggregate growth rates of Madhya Pradesh and the Indian economy is that, in spite of some gains of the reforms that might have accrued to the state economy, enhancing its growth rate, the relative position of Madhya Pradesh worsened during the 1990s. Any prospect of the state attaining a growth rate high enough to improve its relative position has remained elusive.

The decadal growth of population in MP<sup>1</sup> was 26.8 and 24.3 per cent, respectively, during the 1980s and 1990s, higher than the national growth. The gap between the growth rates of per capita income of the state and all-India has therefore been wider. It should, however, be noted that Madhya Pradesh was the only one among the six low income states in India which had attained a higher growth rate during the reform era of the 1990s, compared to the 1980s. But the modest gains of the Madhya Pradesh economy during the 1990s are seen to be accompanied by extremely discomfoting equity outcomes when one considers the sectoral growth patterns in agriculture and non-agriculture.

During the 1980s, the share of Agriculture was 48.9% and that of non farm was 51.1% respectively, but during the 1990s, this difference was much wider: agricultural share was 41% and non-agricultural sector 58.9%. At the national level has been that the share of non-agricultural sector has been a little more than that of agriculture. In Madhya Pradesh, however, non-agricultural growth during the 1980s was more that of agriculture. The resulting phenomenon of a further dualisation of an economy that was already dual to start with is observed both in Madhya Pradesh and India as a whole, but the process had an added momentum in the state. The pace of dualisation depends both on the sectoral growth rates and the extent of transfer of the workforce from the agricultural to the non-agricultural sector. From the Index of Duality, as defined and

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<sup>1</sup> Planning Commission

presented in Table 1, it clearly emerges that the Madhya Pradesh economy was probably less dual than the overall Indian economy at the beginning of the 1980s, having Duality Indices at 3.36 and 3.56 respectively. By the end of the 1980s, however, the Madhya Pradesh economy has become even more dualised than the Indian economy as a whole and the trend has continued unabated through the 1990s and 2000's.

**Table 1:** Index of Duality of Economy of Madhya Pradesh and India.

State/Year	Agriculture		Non-Agriculture		Index of Duality
	Percentage Share in		Percentage Share in		
	output	workforce	output	workforce	
<b>Madhya Pradesh</b>					
1980-81	48.8	76.2	51.2	23.8	<b>3.18</b>
1990-91	39.7	76.4	61.3	23.6	<b>4.47</b>
2000-01	33.2	71.6	66.8	28.4	<b>5.07</b>
2008-09*	24.4	65	75.6	32	<b>6.20</b>
<b>India</b>					
1980-81	35.7	66.5	64.3	33.5	<b>3.56</b>
1990-91	32.1	67	67.9	33	<b>4.30</b>
2000-01	24.3	61.4	75.7	38.6	<b>4.95</b>
2008-09*	19.9	58	79.1	39.9	<b>5.21</b>

Note: Index of Duality (I) is calculated as follows:

$$I = \frac{(\text{Share of non-agr in total output}) / (\text{Share of non-agr in workforce})}{(\text{Share of agr in total output}) / (\text{Share of agr in total workforce})}$$

\* out share are actuals, workforce data- rough estimates available at [www.indiastat.com](http://www.indiastat.com)

The government can achieve development in the state through investments in social and economic infrastructure. There is increase in regional in-equalities within the state despite the major emphasis on inclusive growth. Public capital formation and investment in infrastructure (Physical and Social) increases productivity and hence encourages private investment. However, state developmental expenditure / state capital expenditure have failed bridge the gap between the status of the districts. The poorer regions continue to decelerate in manufacturing, and also overall output growth. The state has not gained much by liberalization of trade because of structural deficiencies, although the share of service –output seems to have increased. The poorer regions cannot be alleviated without more thorough economic sector investments; also the state developmental expenditure in social sectors is important for reducing the structural inequalities. The development expenditure can help the state in improving the status .

From the development experience of Madhya Pradesh it is possible to draw a few important conclusions.

The basic developmental strategy in India is developed at the aggregate level by the central Government (This is in relation to the Indian economy as a whole.) These policies are basically sector-specific and therefore are region-neutral. Since the regional economies are imbalanced, these sector specific policies have region specific effects as well, magnitude may differ according to the level of development and size of the regional economy. Both the strategies of industrialisation and agricultural growth exhibit asymmetric spatial distribution of resources in favour of states that were already better off due to historical reasons. The poorer states such as Madhya Pradesh are the victim of this inherent limitation of the national development policies.

It is also noted that the problem of duality which characterized the Indian economy at the time of independence has remained unattended in spite of its modest growth in earlier decades and substantial growth in later decades. For Madhya Pradesh, this negligence has proved to be even more serious than for the national economy and possibly other comparable poorer states. The difference between the growth rates of the agricultural and non-agricultural sectors here has been large during the 1980s and even larger during the 1990s and 2000's. In particular, the pace of poverty reduction in the state has been much slower during the 1990s and 2000's not merely in the rural areas, but even in urban areas in spite of a very high growth in the non-agricultural sector. Finally, there is relatively better performance of Madhya Pradesh in the educational sector in the post global meltdown era, which is the only hope for the economic performance of Madhya Pradesh.

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