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Trade Liberalization and Internal Divergence: A Case of India during 1980-2000

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The social cost of rising rural-urban inequality as a result of implementing an open economic policy within a developing country is a widely accepted fact. In context to India, pages have been filled over trying to assess the implications of the neoliberal economic reform programme over the 1990s.This paper highlights the idea of divergence within India due to poor implementation of Washington Consensus type policies in 1990s leading to higher rural-urban inequality. While the pro-market reforms of 1990s were not specifically directed at employment, 'the stated expectation' of policy makers over this period was that liberalizing markets, easing the conditions for entry and operation of foreign investors and encouraging exports especially in agriculture, would all contribute to generating more employment. The paper contradicts this stated expectation of neo liberal advocates and focuses on identifying the link between public expenditure, wage inequality and growth of employment opportunities across sectors within rural-urban areas during the 1990s. Indicators like employment elasticity and state per capita output in the paper provide a forward looking approach needed by policymakers and the state in addressing the rise of rural-urban inequality.

JEL Codes: F1, F11, F63.

1. Introduction

Globalization has fundamentally been a centralizing tendency, drawing disparate economies and sectors into the vortex of a world controlled by a few decision makers. It replicates this centralization in economies which it integrates into the world system, creating strong domestic interests that support the case for an open economy and a pro-market strategy. The sources of inequality which change as a result of rising globalization within developing countries cannot be identified the same way that macroeconomists have historically identified the sources of growth as a result from trade liberalization.

This paper highlights the idea of *divergence*[i] within India due to poor implementation of Washington Consensus type policies in 1990s leading to higher rural-urban inequality in terms of growth and employment opportunities. There is almost no clear evidence from the literature at rural-urban level connecting such policies with better employment opportunities, lesser inequality and despite the failure of lagging states to pursue liberalisation; there are clear signs of divergence within rural-urban areas in measures of human development.

The main goal of the paper is to identify a link between critical areas which can help us in gauging the success or failure of implementation of neo-liberal reforms within India. A pertinent question in this regard would be to look as *to what extent and how did factors like the role of the nation-state in massively cutting down public expenditure in the 1990s, the change in the wage structure across sectors and the fall in the growth rates of productive employment opportunities across rural-urban areas affected rural-urban inequality during the 1990s?* This is the main research question

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which I seek to answer based on a volume of secondary data that points to a contemporaneous increase in measures of globalization and inequality across India.

In my critique, I *first* observe trends in budget deficit of the central government and the decline of capital expenditure as a proportion of total government expenditure in the late 1980s and 1990s and then briefly study the effects of trade liberalization measures on wage inequality and employment growth rates in the rural-urban areas. The data and reports seem to suggest that labour reallocations and wage shifts attributable to liberalization accounted for at most 29% of the increase in inequality between 1993 and 2004.

In this paper, I have done a critical literature review to analyse the rural-urban disparity and started off by giving a brief review of the literature on the viability of the historical theories of trade liberalization (the H-O model) and its impact on the socio-economic development indicators in case of India. Following the Literature Review, in Section I, I discuss the problem of fiscal adjustment in India where the government had massively cut down its public expenditure in the 1990s. In Section II, I discuss the impact of trade liberalization policies and reforms on the wage structure and employment growth rates within rural and urban areas highlighting the trends in rural-urban employment across major sectors. Then, I look at some implications on rural-urban inequality measures and offer a forward-looking approach at the end to provide a greater scope of research within the subject of rural-urban inequality.

2. Literature Review

Based largely on the logic of the workhorse Heckscher-Ohlin model of trade, conventional wisdom by neo-classicists has held that trade liberalization leads to declines in income inequality in developing countries i.e. countries abundant in unskilled/less skilled workers. This conventional wisdom seemed consistent with the initial experience in the newly industrialized economies(Hong Kong, China, Singapore etc.) in the mid-1960s-70s when these economies opened up to foreign trade (Wood 1997). However, the canonical Heckscher-Ohlin model is based on endowments of two factors located within perfect markets. It ignores many imperfections that in real life determine industrial efficiency and competitiveness: technological leads, scale and agglomeration economies, product differentiation, taste differences and the like. Once a large number of productive factors, including those based on enterprise-level effort, are introduced, it becomes difficult to define 'endowments' at the national level[ii].

There has been a considerable debate on the implications of the reform package in India during the 1990s, their sequencing, the pace and their impact and this debate has become a highly polarised one between two camps of scholars. One group of analysts hail the achievements of reform and seek faster implementation of the remaining issues on the reform agenda evident from the works by Bhagwati (1994), Srinivasan (1998), Joshi and Little (1996), Ahluwalia and Little (1998), Parikh (1999), Mohan (1999), among others.

The other school is more critical to the approach of these reforms. My research focuses more on this school of thought in noting the adverse effects of reforms on wage and employment opportunities which led to marginalization of the disadvantaged especially in the rural areas, questioning the sustainability of growth with these reforms. Prominent contributors in this tradition are Nayyar (1996), Ghosh (1997), Nagaraj (1997), J. Ghosh(2002) and Chandrasekhar (1997), among others.

To discuss the importance of nation state in fostering employment, social equity and providing a base for market reforms, the historical works of Keynes, Polanya and Innis are critical in gauging the importance of the role for the nation state through public investment and as a key player in defending social or public values against the market values of individualism and privatization. The Indian policymakers in the 1990s failed to realise that a complete surrender to market forces might increase India's GDP but would adversely affect optimum allocation and distribution of resources especially across rural-urban areas.

On the *'expenditure'* side of fiscal adjustment economists like Nayyar(1996),Srinivasan (1999), Datt (1999), Mohan (1999), argue that India's fiscal regime in the 1990s "was not sustainable in medium-term for it was bound to fuel inflationary pressures or strain the balance of payments, and thus disrupt the process of growth and equity". Panchamukhi and Mahendra Dev in their research on rural-urban disparity also observe a decline in social sector spending especially during the early post-reform period raising concerns regarding the adverse impact of neo liberal reforms on levels of human development. The relative neglect of infrastructure sectors by the centre resulted in a widening gap between demand and supply of infrastructural services which adversely affected regional inequality levels.

On the other hand, while studying the impact of neo liberal reforms on the wage structure and employment growth rates, it is difficult to find evidence in the literature about a *generalizable* relationship between globalisation and growth of employment in developing countries as a whole. The relationship is dynamic and changeable, reflecting *particular interactions in each economy* between the external facets of globalisation (e.g. shrinking economic distance, greater trade or the spread of international production) that apply to the economy and internal factors that affect its employment response. While looking at the literature on globalisation-employment relationship Sanjay Lall (2003) states two critical factors which one should consider while looking at the impact of trade liberalization, one is the *static reallocation* of employed labour in response to neo-liberal policies and the other are the *dynamic growth effects* of closer integration of economies with the globalised system, depending on the ability of each economy to provide the capabilities needed to grow in a closer knit, technology driven and highly competitive international economy.

Several studies document a rise in rural-urban wage inequality over the period of market-oriented reforms. Using data on full-time urban male workers, Kijima (2006)[iii] finds that wage inequality began increasing in the 1980s, highlighting an increase in the returns to skills (proxied by education). Also a number of studies on changing trends in rural and urban employment have come up in recent years explaining how rural-urban disparity increased with the workforce facing employment challenges post the reforms slackening the rate of growth of employment across India during the 1990s.

3. The Methodology

I hypothesize by discussing the interplay of factors which can help understand the rise in Rural-urban inequality as a result of neo-liberal reforms being implemented within India through the *opening* up of the economy as a part of the LPG model. These factors include the *role of nation state through public expenditure in providing adequate infrastructure as the base to trade liberalization, change in composition of wage structure across major sectors* and the *role of creating productive employment* *opportunities* within rural-urban areas before opening an economy to liberal trade reforms. The developed literature on rural-urban inequality isolates these factors. Therefore, there is a lack of historical scholarship on analysing the combination of these factors as a whole in exacerbating rural-urban disparity during the 1990s. There is also a dearth of literature to suggest how critical a role does a nation state play in ensuring the successful implementation of neo-liberalist policies through creation of employment opportunities and increased public investment in stabilizing rural-urban inequality.

My entire critical literature review is based on secondary data available on rural-urban inequality from NSSO rounds, RBI statistics, ILO publications, government reports, books, research papers and articles published with the Economic and Political Weekly. I have referred to studies using published NSS (National Sample Survey) data and also using measures like *employment elasticity* within rural and urban areas and *state per capita output* to understand the rise in rural-urban inequality in the 1990s. While studying wage inequality across different sectors I have used *Gini coefficient*[iv] as a measure of statistical dispersion which helps in measuring wage inequality.

The time of late 1980s and the decade of the 1990s is the central time period considered in the paper as the 1991 policy of Liberalization, Privatization and Globalization held the key in allowing pro-market reforms to be adopted across all sectors in India. Thus, it is justified to study the role of public expenditure, growth of employment opportunities and changes in wage structure at the same time when these neo-liberal reforms were being implemented.

The data used in analysing the decline in public expenditure on the *'expenditure'* side of fiscal adjustment in the 1990s is from Economic Survey of 1992-93, 1998-99 and RBI statistics published in 1999 and some of my literary analysis is based on the results obtained in papers published by Nagesh Kumar and Deepak Nayyar (1996).To understand the change in composition of wage structure and wage inequality during the 1990s my analysis is based on the results of an ADB report by Hasan and Mehta (2011).My analysis also uses NSS Data with the 2001 Census of India data to give some idea of how differently employment trends moved with respect to the stated expectation of advocates of neo liberal reforms in the 1990s. A bulk of my analysis on studying trends in employment opportunities across sectors within rural-urban areas acknowledges the work of C.P Chandrasekhar (2002) and Jayati Ghosh (2002).[v]

It would be pertinent to mention that my critique just offers an insight on structuring a unified framework of the three factors (stated before) affecting inequality. An empirical analysis to test this framework lies outside the scope of this paper and is subject to further research.

4. The Findings

4.1 The Failure of the Nation-State and Reduction in Public Expenditure:

Keynes famously argued that in an economy with underutilized capacity even a completely 'unproductive' activity such as simply getting workers to dig holes and then fill them again would serve as a positive economic outcome because it would increase the effective demand and therefore production by a multiple of the wages paid to such workers. As Keynes rightly pointed out, public employment is critical from the view of private growth and equity, and the Indian government missed a trick in the 1990s by cutting down heavily on its public expenditure in order to adjust its fiscal deficit problem. Table 1.1 summarises the trends in budget deficit of the central government in the late 1980s and 1990s.

Table 1.1: Trends in Central Government Deficit
As percentage of GDP

Year	**Revenue Deficit**	**Fiscal Deficit**
1985-86	2.2	8.3
1986-87	2.7	9.0
1987-88	2.7	8.1
1988-89	2.7	7.8
1989-90	2.6	7.8
1990-91	3.5	8.4
1991-92	2.6	5.9
1992-93	2.6	5.7
1993-94	3.7	6.9
1994-95	3.0	5.6
1995-96	2.4	4.9
1996-97	2.3	4.7
1997-98	3.0	5.7
1998-99	3.4	5.9
Averages		
1985-86	2.6	8.2
1992-99	2.9	5.7

Source: Economic Survey 1992-93 and RBI (1999)

Table 1.1 indicates that the government was successful in lowering down the fiscal deficit as a part of its fiscal management strategy in 1991 but mere lowering of fiscal deficit is not indicative of securing more growth and equity.The government in the post reform era was unable to contain its current expenditure and the extent of fiscal deficits shown above tends to mask the method adopted by the government to balance its fiscal deficit. In fact, the revenue deficit which represents the gap between revenue receipts and revenue expenditure increased in the post-reform period (at 2.9 per cent) on average compared to an average of 2.6 during the second half of 1980s. Thus, the fiscal deficit was contained either by reducing capital investment or by raising capital receipts such as borrowings or disinvestment of public sector holdings of the government (Kumar (1997)).

Similarly Table 1.2 helps to understand how capital expenditure as a proportion of total government expenditure declined steadily from 30.18 per cent in 1990-91 to 21.8 per cent in 1998-99. As a proportion of GDP, capital expenditure also came down from 5.5 per cent to 3.6 per cent during the same period.

Table 1.2: Receipts and Expenditure of the Central Government

Years	Capital Expenditure (in crores)	Total Expenditure (in crores)	Capital Expenditure as Per cent of Total	Capital Expenditure as Per cent of GDP	Total Expenditure as per cent of GDP
1985-86	21477	53112	40.4	8.2	21.5
1990-91	31782	105298	30.2	5.5	18.1
1994-95	38627	160739	24.0	3.7	15.5
1995-96	38414	178275	21.5	3.2	14.6
1996-97	42073	201007	20.9	3.0	14.3
1997-98	51718	235245	22.3	3.3	14.8
1998-99(RE)	63773	281912	21.8	3.6	16.0
1999-2000(BE)	46895	283882	16.5	2.3	14.2

Source: Economic Survey 1998-99 and RBI (1999)

So, what were the implications for the fall of this public expenditure on worsening the rural-urban inequality?

The sudden cutting down of public expenditure from the centre had put direct pressure on the state to finance various infrastructural projects, social expenditure (education, health and sanitation) and create employment opportunities across different sectors. The substantial declines in capital expenditure accompanied by financial liberalization measures, curbing priority sector lending by banks reduced the availability of rural credit, making farm investment more expensive, especially for smaller farmers in rural areas making rural areas worse off (C.P. Chandrasekhar (1997)). Also the reduced transfers to state governments by the centre meant that they faced a major financial crunch and were forced to cut back their own spending, particularly on social expenditure such as on education, health, sanitation, which had provided an important source of public employment over the 1980s.

As Chandrasekhar and Ghosh (2002)points out, financial liberalization measures that came with the reform package of 1991 had in a way effectively reduced the availability of rural credit and therefore possibilities for rural enterprise development. The privatization strategy that was a part of the reform package could not work a great deal for developing rural areas in bringing down rural-urban inequality as private investment was at best a complement and not a substitute for public investment in physical and social infrastructures. In the words of Mohan (1999:7),*"private sector investment would itself be crowded in by greater and more efficient public investment".*

The cutting down of public expenditure and investment can be thus identified as one of the main causes which led to widening of rural-urban inequality as it not only affected the equity process by cutting down welfare spending but it also affected the job creation process within developing states and regions (as discussed in the next section). The failure of the Indian state to provide a range of public goods and services to a majority of its people in the 1990s led to higher rural-urban disparity (thereby) questioning the sustainability of the 'open' economic model in the long run within India. In areas of basic transport, infrastructure development, minimum health facilities the nation state failed to compliment '*openness'* of the economy with a strong infrastructural base which rather only exacerbated the rural-urban inequality problem making developed states (Maharashtra, Gujarat) to do much better to the ones which lacked infrastructure and were less developed (Uttar Pradesh, Bihar).

The next section discusses the trends in wage structure and employment opportunities across major sectors within rural-urban areas in the 1990s.

4.2 Wage Structure and Employment Opportunities under the Spell of Economic Reforms

In an economy like India, the generation of productive employment opportunities spread over a wide base of population is critical to any sustainable economic expansion, besides being necessary for equitable distribution of income and resources. The inability to generate productive employment opportunities spread over a wide base of population and improve aggregate productivity of labour rather than in a few chosen sectors was the most obvious symptom of the failure of the Indian economic development process in the 1980s.

4.2.1 Trends in the Composition of Wage Structure

To gauge the effects of trade liberalization on rural-urban inequality, it is important to observe the level of *wage inequality*[vi] in India. Though studying this aspect in detail is beyond the scope of this paper but the role played by trade liberalization on wage inequality across sectors in India especially in the 1990s remains a subject of further research by economists. The existing literature studies the measurable impact of trade liberalization on real wage structure; however, here I briefly discuss the impact of trade and services liberalization on wage structure by looking at industry-specific wages to understand rural-urban disparity.

Mehta and Hasan (2011)G.K. Chadha (2009) point out at a number of channels through which trade liberalization influences industry-specific wages. First, especially in the short to medium term, when workers are likely to be immobile across sectors, reductions in tariffs may lead to reductions in industry wage premia, i.e., the portion of workers' wages attributable to the industry of employment and secondly, in the context of imperfect competition, tariff reductions are likely to put pressure on the profits earned by domestic firms. To the extent that firms share rents with their workers, tariff reductions can be expected to lead to further reductions in industry wage premia[vii]. Based on an Asian Development Bank report in 2005(Aashish Mehta and RanaHasan)[viii] Table 2.1 below describes average (real daily) wages and employment shares for nine major production sectors and in aggregate. Using the report results here one can see an increase in real wages from the first two columns by an average of 2.8% per year between 1993 and 2004. There is also a considerable variation in wage growth across the sectors; for example, construction workers (the lowest paid group to begin with) saw average wage growth of only 1.4% per year. Contrary to this, workers in public administration and defence (a group that has been consistently among the best paid) experienced wage growth in excess of 4.1% per year. Looking at the last two columns, Mehta and Hasan notice the largest increases in employment shares in construction, trade services and hotels/restaurants, and business services.

Table 2.1: Wage and Employment Structure by Major Industry Groups, 1993 and 2004

Industry Group	Average Daily Wage		Share of Non-Agricultural Wage Employment	
	1993	**2004**	**1993**	**2004**
Mining	191.5	382.8	2.0	1.4
Manufacturing	119.6	142.2	30.3	28.7
Utilities	206.5	378.0	1.9	1.4
Construction	76.2	89.0	9.6	12.1
Retail, wholesale	83.9	104.7	9.7	12.3
Transportation, Storage, communication	135.8	214.4	11.5	10.3
Business Services	252.6	366.3	4.9	7.1
Public Administration and defence	204.1	321.1	16.6	10.8
Other Services	161.4	231.4	13.5	15.9
Overall	143.1	194.8	100	100

Source: ADB report (Hasan and Mehta's Paper (2011))

Similarly Table 2.2 below describes how wage inequality evolved across the nine production sectors and in aggregate. As the last row shows, inequality increased between 1993 and 2004 in terms of each of the four measures reported. For example, the Gini coefficient increased by 7 percentage points, from 0.42 to 0.49 which is indicative of an increase in inequality within the nine sectors. The only exceptions which can be seen from the table are the construction sector and trade services and hotels/restaurants.

Table 2.2: Wage Inequality by Major Non-Agricultural Sector

Industry Group	Gini Coefficient 1993 2004	GE(0) 1993 2004	GE(1) 1993 2004	90-10Log Wage Differential 1993 2004
Mining	0.34 0.42	0.25 0.35	0.21 0.33	1.90 2.19
Manufacturing	0.43 0.46	0.35 0.36	0.32 0.39	2.15 2.02
Utilities	0.33 0.37	0.23 0.26	0.22 0.23	1.32 2.04
Construction	0.33 0.31	0.23 0.16	0.22 0.19	1.32 1.27
Retail, wholesale	0.39 0.39	0.29 0.26	0.29 0.29	1.74 1.61
Transportation, Storage, communication	0.37 0.44	0.26 0.34	0.22 0.33	1.82 2.12
Business Services	0.38 0.50	0.35 0.48	0.25 0.47	2.17 2.59
Public Administration and defence	0.30 0.32	0.22 0.20	0.16 0.17	1.45 1.71
Other Services	0.42 0.48	0.37 0.45	0.29 0.37	2.27 2.61
Overall	0.42 0.49	0.36 0.43	0.30 0.43	2.13 2.34

GE: Generalized entropy index
Source: ADB report (Hasan and Mehta's Paper on Effects of Trade and Services Liberalization on wage inequality in India)

So what implications can be made from the following results on rural-urban inequality? These two tables show a significant increase in wage inequality levels across various sectors in India in the 1990s as a result of trade liberalization. The considerable variation in wage inequality levels increased rural-urban inequality by making workers in primary sector (rural areas) get less wages compared to those working in secondary and tertiary sectors. Below I discuss the trends in growth rate of employment opportunities across sectors during the 1990swhich along with the change in composition of wage structure led to an increase in rural-urban disparity in terms of employment opportunities created within rural-urban areas.

4.2.2 Trends in Employment Opportunities within Rural-Urban Areas

It is a stated fact that patterns of employment generation in both rural and urban India inevitably have strong correlations with equity of resources across the country. 1990s saw a stagnation in the job creation process largely due to an impact of considerable variation in wage structure, fall in public investment and expenditure especially in rural areas causing a large rural-urban divide in terms of distribution of resources and employment opportunities.

The results of the NSS's 55th Round regarding employment can be combined with the 2001 Census of India data to give a lucid picture of how differently employment trends moved with respect to the stated expectation of policymakers in 1990s. One sees a sharp decrease in the rate of employment generation across both rural and urban areas as discussed here in the following tables. For example, the report of the Planning Commission's Task Force on Employment Opportunities also showed an absolute decline in the number employed in agriculture, between 1993-94 and 1999-2000, at the all-India level.

First, to understand how an accepted rise in GDP growth during the 1990s was affecting the change in total employment I examine *employment elasticity*[ix] within different major sectors of the economy for the period 1983-2000. Elasticity of employment as an indicator indicates the percentage growth in total employment to be expected from a 1 % growth in GDP. The low employment elasticity apparent in table 3.1 during the 1990s reflects the fact that employment growth decelerated in this period while GDP growth/annual growth rate accelerated.

Table 3.1: Employment Growth and Elasticity in Different Sectors (1983-2000)

Sector	**Annual Growth Rate**		**Employment Elasticity**	
	1983-94	**1994-2000**	**1983-94**	**1994-2000**
Agriculture	1.51	-0.34	0.50	0.00
Manufacturing	2.14	2.05	0.33	0.26
Trade	3.57	5.04	0.63	0.55
All Sectors	2.04	0.98	0.41	0.15

Source: *The Market that Failed* by C.P. Chandrasekhar, J. Ghosh (2002); pg 82, NSS Rounds Data (2002).

When seen in terms of sectoral distribution, the deceleration in the employment growth during 1994-2000 can be attributed to stagnancy of agricultural employment as compared to the period 1983 to 1994 when agricultural employment grew at the rate of 1.5% p.a. Services was the other sector apart from agriculture where the employment growth rate stagnated during 1994-2000 as compared to 1983 to 1993. Agriculture and services which comprise of a large share of employment had almost zero employment elasticity during 1994-2000 as against 0.50 during 1983-94 as evident from the table.

Similarly, in table 3.2 there is a break-down of unemployment rates in the rural and urban areas for the entire population, labour force, workers for the periods during 1980-2000. The table elucidates that the rate of employment in urban areas slowed down very dramatically over the 1990s compared to 1980s and the deceleration in organized sector employment was one of the more disturbing features in 1990s, given that industrial output increased manifold and the service sector in which much of the organized employment was based, was the most dynamic element in national income growth in the post reform era.

Table 3.2: Unemployment rates in rural and urban sectors, 1983-2000 (in %)

Population group	1983-94 Aggregate	Rural	Urban	1994-2000 Aggregate	Rural	Urban	1983-94 to 1994-2000 (%) Aggregate	Rural	Urban
Population	2.0	1.8	3.0	1.9	1.7	2.7	-5.0	-5.6	-10.0
Labour Force	2.4	2.2	3.3	1.3	1.0	2.4	-45.8	-54.6	-27.3
Workers	2.7	2.4	3.6	1.1	0.7	2.3	-59.3	-70.8	-36.1
Unemployment	6.0	5.6	7.2	7.3	7.2	7.6	21.7	28.6	5.6

Source: NSSO Various Rounds

So, why were the employment growth rates stagnant or declining at a time when the structural transformation to a more 'open' economy in the 1990s was supposed to create more equitable employment opportunities across all sectors and regions?

The widening gap between incomes in agriculture and non-agriculture was one of the chief causes to insufficient productive employment generation in the countryside. Also, trends in urban areas should be considered, where access to urban opportunities through migration and remittances could have potentially been an important aspect of the diffusion of incomes to rural India. 55th Round NSS Data shows that the rate of increase in the urban share slowed down to only 0.77% per annum over 1991-2000, suggesting that over this decade there was not enough employment dynamism in the urban areas to generate increased rates of migration. In addition to that, the stumbling pace of rural workers' shift to non-agricultural sectors, witnessed during the years of economic reforms signals to their relative incapability of gaining access to these jobs due to a *low human capital index*.

It was the 'low human capital index' which accounts as a major factor in creating a rise of rural-urban inequality especially in rural areas, questioning the role of the state in creating an educated and skilled labour force which could have allowed rural workers to shift to non-agricultural sectors and reduce the large rural-urban disparity. As G.K Chadha (2003) points out ''the competing capabilities of rural job aspirants were never before been put to test as after the arrival of the economic reforms; perhaps, in certain sectors, the knocking-out effects are working more stringently against them''.

Moreover, the increasing capital intensity and economic policies pursued during the 1990s as a reversal of those followed in 1980s systematically worked against the interests of most small producers, who accounted for not only the most labour intensive forms of urban production but also the dominant part of urban manufacturing employment. With the reduction of priority sector credit allocation, the shift in emphasis in terms of financing investment from banks to stock markets and the removal of various export subsidies from which small scale exporters benefited, all mitigated against the interests and viability of these small scale labour intensive enterprises in the rural areas affecting employment opportunities in the rural areas. The *import competition pressure* with imports becoming available at lower average rates of tariff made it difficult for small enterprises to match the huge advertising budgets of larger multinationals in particular which reduced the importance of small scale enterprises exerting downward pressure on urban employment and causing a large amount of labour force to be unemployed /underemployed in rural-urban areas.

If we do a *micro*analysis of distribution of rural-urban workers during the 1990s, based on usual status NSS estimates, it gives a 28-year long history of sectoral distribution of rural (and urban) workers. In rural India, the proportion of male workers engaged in the primary sector had steadily declined from 83.2 per cent in 1972-73 to 74.5 per cent in 1987-88 and to 71.4 in 1999-2000. Apart from that, the proportion of their employment in the secondary, tertiary and total non-farm sectors witnessed a steady increase.

What all this suggests is that there was a large disparity in terms of the productive employment opportunities available to the rural males and females and urban males and females. From this analysis, one can see infer that the inter-sectoral shifts were relatively sharper during the seventies and the eighties than during the nineties.

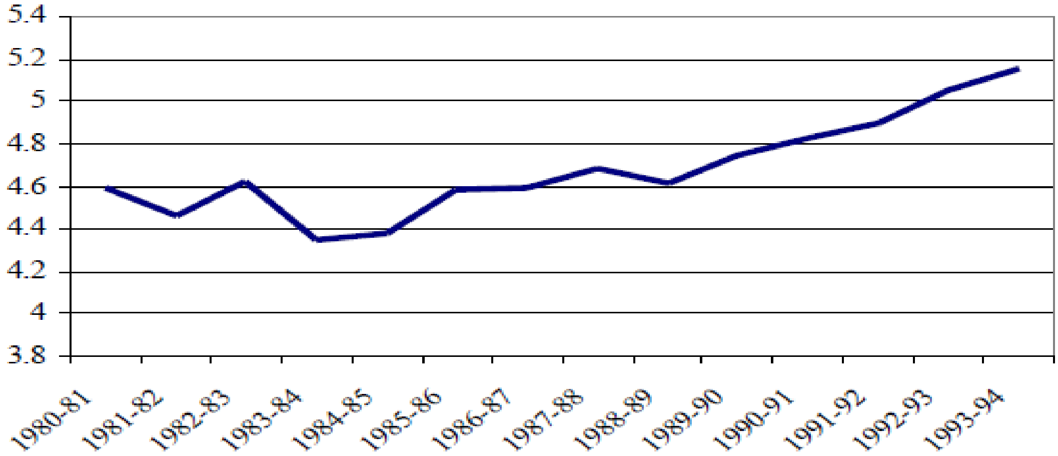
4.2.3 Implications for Rural-Urban Inequality

Public investment in vital urban infrastructure declined considerably (as seen in Section1), and public sector ‘cost cutting’ created blockages for all producers, adding to the costs in general affecting the economic feasibility of small scale industries which were the dominant force for creating more employment opportunities especially within the rural areas of India. The role of import competition in reducing the viability of the labour intensive small enterprises and exerting downward pressure on rural and urban employment should not be underestimated as well.

If we look at *state per capita output*, which is a useful indicator for measuring rural-urban inequality we can clearly see a spike in the coefficient of variation in the state per capita output during the 1990s compared to the 1980s.

Based on an econometric study by *Somik V Lall* here is a graph on the coefficient of variation on state output per capita (for 14 Indian states) where an increase in coefficient of variation in state output per capita in the 1990s indicates a significant increase in inequality amongst these 14 states (comprising developing and developed states) which in spite of overall increase in growth rates led to lagging behind of states which were largely agrarian and more rural areas. This explains the divergence seen in the Indian economy due to the implementation of neo-liberal reforms leading to a large rural-urban inequality.

Figure 1: Coefficient of Variation in State Output per Capita



Source: *The Role of Public Infrastructure Investments in Regional Development Experience of Indian States* by Somik V Lall (Page 2)

In addition to that, to understand the rise in inequality from a sectoral picture considering changes in wage structure and decline in employment opportunities across major sectors I have used results from a study done by Sandwip Kumar Das & Alokesh Barua(23 Nov, 2007) which shows the calculated the correlation coefficients between the level of inequality, measured by an entropy[x], and the annual (year-to-year) growth rates.

The correlation between *growth and inequality* has been found for the entire period (1970-92) as well as for the two sub-periods, 1971-80 and 1981-92. Das and Barua (2007) notice that agriculture, growth and inequality are significantly and negatively correlated while in manufacturing the correlation is not significant. The negative sign of the correlation coefficients is seen in most other cases, but these are not significant except in infrastructure II and NDP.

Figure 2: Economic Growth and Regional Inequality

Correlation coefficient between entropy measures of inequality and the corresponding annual growth rates

Category	1971–92	1971–80	1981–92
Agriculture	-0.847 (-7.13)	-0.877 (-5.77)	-0.722 (-3.61)
Manufacturing	-0.077 (-0.35)	-0.167 (-0.54)	0.035 (0.12)
Infrastructure II	-0.682 (-4.17)	-0.887 (-6.07)	-0.086 (-0.3)
Primary	0.12 (0.57)	-0.062 (-0.19)	0.28 (1.05)
Services	-0.013 (-0.06)	-0.251 (-0.82)	0.353 (1.31)
NDP	-0.483 (-2.47)	-0.488 (-1.77)	-0.441 (-1.7)

Figures in Parenthesis are t-values
Source: CSO

The *Correlation* analysis does not indicate causality here but the results shown here can be tested by running a simple OLS regression analysis done by Das and Barua (2007) in their paper. The results here (in the above table) being indicative if not conclusive point at a conflict between growth from neo liberal reforms and rural-urban inequality during the 1990s where faster growth of the Indian economy in the 1990s with the implementation of neo liberal reforms also saw a significant increase in sectoral inequality across rural-urban areas.

5. A Forward Looking Approach

From the literary analysis done, it is abundantly clear that more research needs to be done on linking the role of the nation state in increasing public investment on social and physical infrastructure while deregulating and 'opening' up an economy to foreign investment especially in the case of a developing country. In addition to increasing public expenditure on social and physical infrastructure, I identify two other research areas here which would widen the scope of having a better *'Reform Model'* to compliment an 'open' economic policy.

a) ***Providing Social safety nets and social security schemes*:** The industrial restructuring provoked by liberalisation led to job losses and increasing casualization of employment in the corporate sector post 1980s [Panchamukhi and Das 1999]. There is therefore, a need to provide effective social safety nets to guard vulnerable workers from the threat of job losses especially in rural areas and the need for a framework for social security cover to contract workers and those in the informal sector in the industry.

b) *Create A Regional Development Fund*: With the dismantling of the industrial licensing system, there is no mechanism left with the government to channel industrial investment to relatively less developed regions. This might explain the increase in interstate disparities that has been observed during the post-reform period. More research needs to be done on creating*a state regional development fund* which is built up with a cess imposed on the units set up in more developed states and subsidises the investments in poorer states, among other measures, to bring about rural-urban regional balance. The ineffective mechanism of the*Regional Rural Banks (RRBs)* should also be changed to foster increased investment into largely agrarian rural areas to give farmers access to cheap credit and thus, provide equitable distribution of financial resources across all rural areas.

6. Conclusion: A Decade of Lost Opportunity

The neoliberal economic reforms over the 1990s belied the expectations of its proponents. Sectorally for rural workers, transport storage communications, construction and, to a slightly lesser extent, manufacturing could be treated as satisfying segments in the 1990s while agriculture, mining-quarrying, utilities, trade, and community-social-personal services, showed negative growth or slow-downs in employment growth. Hence, 'the stated expectation' of improved employment growth during the post-reform years was not available to both sections of the rural workforce exacerbating rural-urban inequality.

The Indian economy saw a great deal of internal divergence in the 1990s in spite of an increase in GDP growth rates with the implementation of a LPG model. The inequitable pattern of growth in the 1990s due to factors like *the lack of public expenditure by the state, increase in wage inequality and decline in the job creation process across sectors within rural-urban areas* question the policies of deregulation and trade liberalization within developing countries like India in creating adequate incentives for equitable distribution of resources across all regions. Thus, it would not be wrong to call the decade of 1990s as a *'decade of lost opportunity'* for creating equitable employment opportunities across all regions and curbing rural-urban inequality.

Endnotes

[iv] The Gini coefficient measures the inequality among values of a frequency distribution (for example levels of income). A Gini coefficient of zero expresses perfect equality, where all values are the same (for example, where everyone has an exactly equal income). A Gini coefficient of one (100 on the percentile scale) expresses maximal inequality among values (for example where only one person has all the income). However, a value greater than one may occur if some persons have negative income or wealth. For larger groups, values close to or above 1 are very unlikely in practice however.

[v]Though the role of the state in providing education within rural-urban areas in form of increased investment is important in understanding the reason of 'low human capital index' as a factor to the rising of rural-urban inequality in the 1990s but due to a limited scope of research my analysis provides only an overview of trends of employment opportunities across sectors within rural-urban areas and excludes any analysis of education opportunities[v] available within rural areas by studying state expenditure on education.

[vi]Wage Inequality is studied by observing the composition of wage structure across sectors and can be used as an indicator for explaining the behaviour of rural-urban inequality.

[vii]Greater openness to trade may also increase inequality by reducing the bargaining power of labour (see, for

example, Rodrik 1997). Since greater openness makes it easier to import all kinds of goods—capital inputs, finished goods, and intermediate goods—it can make it easier to substitute the services of domestic workers via the import of capital inputs or the products they were producing. In this way, trade liberalization can erode the bargaining power of workers vis-à-vis the owners of capital in the sharing of profits.

[viii]The report focuses on the experience of urban male and female wage and salaried workers aged 15–65. This is because the NSSO's employment–unemployment surveys do not provide information on the earnings of self-employed workers. Mehta and Hasan consider combined weekly earnings data based on the ADB report with information on the number of days worked to compute a daily wage rate for each wage employee. The nominal daily wage rate is deflated using a price index derived from official state (urban sector) poverty lines for 1993 and 2004.

[ix]*Higher employment elasticity* is not necessarily the best way of achieving employment objectives and ideally what is required is a growth rate of GDP high enough to allow employment to expand while also allowing for growth in productivity to ensure rising real wages.

[x]The entropy measures the level of regional inequality which is an alternative approach to the U-hypothesis (Regional inequalities, economic growth and liberalisation: A study of the Indian economy by Das and Barua).

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