The Question of Employment and Livelihoods in Labour-surplus Economies

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1. Capitalism and Unemployment

The nature of capitalist growth has always been, and continues to be such that it engenders unemployment daily, hourly and on a mass scale. The objective of capitalist production is to maximize profits for capitalists, not to provide employment to the existing unemployed or the less than fully employed, nor are capitalists in the least concerned to ensure minimum livelihoods for the labouring poor. Two major features as regards employment and labour earnings, marked classical industrialization in Britain, France and other countries in Europe in the 18th and 19th centuries. First, from the very beginning and in the course of this industrial development, the wage bill was kept to the minimum possible level by capitalists in order to maximize profits, taking recourse to the extensive exploitation of labour through raising absolute surplus value, namely the lengthening of the working day for the same daily wage and the widespread use of the underpaid labour of women and children. The resulting raising of the rate of surplus value (the ratio of surplus labour to necessary labour) however led to a contradiction. The restriction on mass labour earnings in the very process of maximizing profits meant that the internal market for capitalism could never grow rapidly enough to stave off the problem of inadequately expanding demand and maintain the economic incentives for accumulation - as long as the economy was considered to be a closed one.

Second, from its very inception capitalist industrialization was marked by labour-displacing mechanization, perhaps because the main industries involved were import-substituting industries (imported cotton textiles and bar iron for example). Textiles in Europe could not compete with the much cheaper imported handicraft output of Asian artisans as long as mechanization did not reduce unit labour costs of yarn and cloth, nor could iron ores be extracted and reduced profitably until innovations were applied. Once introduced however, mechanical innovations spread and affected not only import-substituting goods but domestic employment in every traditional sphere. On the one hand extensive methods of labour exploitation gave way to intensive methods in which it was no longer the lengthening of the working day, but rise in relative surplus value through a dual route – reduction in necessary labour, namely the cost of wage-goods, in which colonial exploitation played a major role; and rise in labour productivity through the substitution of dead labour (machinery) for living labour (Marx, *Capital Vol.1, XV)*. This latter route provided a means of overcoming partially the contradiction affecting accumulation, by absorbing more investment in the form of capital-intensification. On the other hand with mechanization there was inevitably labour displacement at a faster rate than the increase in labour demand arising from expansion of the domestically absorbed part of total output giving rise to Luddite and similar movements.

Such unemployment has been very often mislabelled ‘frictional’ unemployment as though it is always a short-run problem, which ignores the fact that had today’s advanced economies been closed economies or merely formally open[1] ones, the unemployment owing to mechanization would have reached abnormally high proportions not commensurate with the concept of a reserve army of labour, and created social tensions not manageable within the capitalist system. In Britain for example despite the highest rate of manufacturing growth seen in its history, as well as rapidly growing exports in the early period of industrialization, by the 1840s the discontent and social tensions owing to rising unemployment and bad conditions of work and life of the labouring poor combined with rapidly increasing income inequality, had reached such a pitch that the fledgling working class movement was ready for a general insurrection and the ruling classes were in fear of revolution. The insurrections in Britain and other countries in Europe were militarily suppressed, but the social instability of the capitalist system had been exposed within a mere six decades of the inception of industrialization.

2. The Export of Unemployment

All the early industrializers overcame the problem of growing unemployment inherent in their capitalist growth and technical change, simply by exporting their unemployment abroad, an option which is not open in any serious way to today's large labour surplus economies like India and China. The export of unemployment took place through colonization and imperialism and appeared in multifarious forms. The most direct form of export of unemployment was the physical migration of population. The precondition for this was the seizure of enormous tracts of land by the West Europeans from indigenous peoples in the Americas, South Africa, and Australia, and their permanent occupation by the in-migrants. 'Land' in this context means not just land with the capacity for producing crops, but includes all the natural fauna, the rich water, timber and mineral resources of these occupied regions. In Britain nearly 2 percent of the domestic population every year was migrating for permanent settlement abroad by the mid- nineteenth century while large numbers of criminals and members of the potentially riotous underclass were got rid of by transportation to Australia.

Second, unemployment was exported by industrializing countries like Britain, for example, through the flooding the subjugated already populous tropical colonies with its cotton textiles and other manufactured goods under discriminating commercial policy which kept these markets compulsorily completely open to imports, while the home market was protected from their handicraft manufactures for nearly 150 years.[2] Export of unemployment by this route meant import of unemployment by the colonized artisans. While employment and wages rose in the industrializing country with output expanding at about double the rate of domestic absorptive capacity, the other side of the coin was that in the colonies manufactures employment went down sharply resulting in de-industrialization. The process was a prolonged one in a vast country like India since the

[1] By 'formally open' economies I mean sovereign countries voluntarily trading on equal terms, as distinct from 'really open' economies in history involving trade backed by military power, between imperialist countries and colonized or subordinated regions.

[2] It is a fact to be noted that historians of technical change and industrialization (D. Landes, E.J.Hobsbawm) make no reference to these discriminatory commercial policies in their writings.

limitations of early transport protected the poorly connected hinterland which were penetrated by imports only after the railways became important.

Third, unemployment was exported by the imperialist country through a more complex route in which tropical colonies were made to finance capital exports by the imperialist power. The leading imperialist power did so through the systematic annual appropriation of the foreign exchange earnings from the rising export surplus, mainly of primary goods, of its colonies like India. These forex earnings assumed very large proportions during the quarter century before WW I. The rising forex earnings of colonies of which India's was the largest share, were used to meet the deficits on the balance of payments of the metropolis allowing it not only to export capital and earn dividends but *pari passu* increase its capital goods exports. Britain for example, the leading imperialist power and the world capitalist leader, not only shored up demand in the European Continent , the USA and regions of white settlement (Argentina, Brazil, S.Africa) by running continuous current account deficits vis a vis them (owing to its rising wage-goods and raw material imports in excess of its rising manufactures exports) but also developed them rapidly by exporting capital, thus incurring ever increasing balance of payments deficits with these regions. Sustaining this system under the prevalent regime of fixed exchange rates (the Gold Standard) was only made possible through its appropriation of the vast export surplus earnings of India and other colonies from these very same regions to offset its own balance of payments deficits (Saul, 1960). In the colonies the producers of rising volumes of exportables were paid out of tax revenues they themselves had contributed to the state, therefore no new purchasing power was injected through their exports, on the contrary the rising export surplus was merely the commodity-equivalent of rising taxes extracted from them. The strong deflationary impact of the mechanism (which involved one-quarter to one-third budgetary surpluses in India) led to higher net unemployment in the economy. Export–led growth of unemployment was the result. The Great Depression which started with the agricultural depression from the mid-1920s was the *coup de grace* and pauperized large segments of the peasantry in India – the percentage of rural workers dependent on wage-paid work leapt from 26 to 38 comparing the 1921 and 1931 censuses. China fared even worse with not only deep agricultural depression but foreign invasion, both civil war and anti-Japanese war, entailing the loss of 6 million lives.

It might be argued that today's developing countries which were former colonies, in some sense are getting their own back in the current era owing to the relocation of labour-intensive segments of metropolitan industry to cheap-labour developing countries, whose products then enter as imports retailed through supermarket chains in advanced countries. De-industrialization in the advanced countries is the result. However this is by no means an opposite and symmetrical process to the previous one. Certainly some employment is generated through such re-location, but the since production is not in the hands of domestic capitalists but the advanced country corporates it is the latter which benefit by maintaining high rates of surplus value and mainly repatriate profits. They pressurize governments to set up special economic zones where inadequate domestic labour laws are further relaxed to enable them to raise the rate of surplus value through draconian terms of contract for local labour embodying extensive methods of exploitation, and by reducing standards of work safety and pollution control. The other main beneficiaries are the advanced country consumers whose real incomes rise owing to cheapening imported consumer goods from developing countries. Further, ultimately the resulting import surplus and current account deficits of rich advanced countries paradoxically continue to be substantially financed through lending to them by developing countries, and again involves a transfer (with the latter lending at a lower rate to advanced countries than the rate at which they borrow from them. About 2 percent of India's GDP or U.S. $9 billion annually was the estimated cost a few years ago to the Indian economy of such borrowing short and lending long which effectively is a transfer to advanced countries).

3. Employment creation no longer an objective in planning

As the unwilling but enforced recipients of the export of unemployment from today's advanced countries, India the former colony and China the former semi-colony, had ended up by the mid-20th century with mass poverty and with significantly tertiarized economies -a higher share of services and lowered share of both agriculture and industry in GDP- compared to their initial states. They inherited very high levels of unemployment and under-employment, which was a matter of serious concern to their political leaders and planners seeking to pursue a new independent path of national development. The choice of techniques question was much discussed in the early decades, the 1950s and 1960s, and it was recognized in both countries that industrialization with employment generation meant 'walking on two legs', to borrow Mao Zedong's words - capital intensive heavy industries and intermediate goods production had to be built up from scratch or expanded, there had to be a simultaneous thrust for expansion in labour-intensive segments of manufacturing including small-scale and village industry, and for all this to occur in a non-inflationary way agricultural growth had to accelerate to provide the required wage goods and raw materials. This was the rationale for giving priority sector status to small scale industry and agriculture in India as regards credit, and extending subsidies to realize the Mahatma's dream of reviving hand-spun and woven *khadi*.

However though the fastest expanding segments of manufacturing output in the first 15 years of Indian independence logged 9 percent annual growth rate, the associated employment growth was only 3 percent. It was already very clear and widely recognized that no visible net shift of the work-force out of agriculture could be expected even at such high manufacturing growth rates. Subsequently the elasticity of employment with respect to manufacturing output has been falling steadily and especially sharply after liberalization in the 1990s for obvious reasons. Maintaining competitiveness by firms in a trade- and- investment open economy entails adopting the latest technology and the loss is in terms of employment generation. Additionally the thrust of neo-liberal reforms is always towards retrenchment of labour and 'downsizing' with a total ignoring of the impact of this on aggregate demand and hence on the inducement to invest. The combination of the two factors has led to near-zero impact of manufacturing growth on employment while for organized industry there is absolute job-loss, as is well established by now.

When it was already amply clear from the 1960s that industrialization even at a respectably high rate could not make any substantial dent in the unemployment and livelihoods problem especially for the rural millions, scholarly attention turned to additional ways of raising employment, First, the possibilities of mobilizing underemployed rural labour for capital formation at little cost; second, and related to the first, the potentialities of larger labour-absorption within agricultural and side-lines activities; third, the potentialities of village and small-scale labour-intensive industries.

The question of mobilizing underemployed labour for capital formation, was first mooted by Ragnar Nurkse and Maurice Dobb, and a number of model-building and empirical estimation exercises were carried out in India which suggested that the difference between rural actual days worked and potential days voluntarily workable, amounted to between a quarter to one-third of actual days worked in most parts of the country. This proportion is likely to be as high or higher today. But there were little practical results flowing from these discussions in India. The labour market functioned in the usual way to mobilize the rural landless and totally pauperized into inter-state and rural- urban migration, but underemployment on poor and small peasant farms was left untouched and the social base of private rural investment remained narrowly confined to landlords and rich peasants. The state did intervene with positive effects however to invest in irrigation projects and also stabilized farmer incomes through support prices and state procurement. Price support is a most important measure in agriculture where producers already face unavoidable output uncertainty, and would find it difficult to take rational investment decisions if they faced price instability as well.

In China on the other hand, the policy of formation of advanced rural co-operatives from the mid-1950s and then the peoples' communes did permit large-scale mobilization of underemployed labour for capital formation under a deferred-wages system for the best part of a quarter century, until household contracting was introduced from 1980. In well-documented studies collective labour built 46,000 reservoirs and substantially raised the irrigated area permitting higher direct labour use within agriculture. Collective labour also afforested and reclaimed land, built clinics and schools and released labour from agriculture for employment in fast growing rural commune and brigade enterprises which were later renamed township and village enterprises. The 'winter works' for maintaining capital assets absorbed 100 million rural workers by the late 1970s. The employment problem had been substantially solved in rural China since the days employed per worker is estimated to have more than doubled in the three decades up to 1980 (Rawski, 1982, data quoted in Patnaik 1998).

With the top-down directives to abandon collective operations from 1980 and the inception of the household contract system, all this was reversed. There was a decline in area under irrigation, decline in rural capital formation, the winter works ceased, and China saw the re-emergence of rural unemployment and under-employment on a very large scale leading to massive waves of rural –urban migration and the formation of a new urban under-class of recent rural migrants with little or no social security. Re-location of hazardous industries to rural areas, and privatization of mining has produced one of the highest rates of industrial trauma and mining fatalities in the world. While

China with its very high GDP growth rate is often quoted by the neo-liberal advocates as a model of market-oriented economic reforms, especially if they are directing their remarks towards opponents of neo-liberal policies in India, if anything China after 1980 is a negative model given the strongly adverse impact on employment and livelihood security. Industrial and commercial firms are grabbing farmer lands leading to violent protests and deaths of farmers in firings exactly as in India. Officially 78,000 separate cases of civil unrest have been registered in China in a single year by people affected adversely on various work and livelihood issues. Whenever the capitalist path of growth is followed in deed, even if its nature might be camouflaged in words, mass unemployment is bound to become a major problem. Who benefits? A minority which enriches itself faster than would ever have been possible under the earlier forms of rural collective property which safeguarded peoples' livelihoods. But the costs especially to the rural majority in welfare terms of this path of market oriented reforms are ignored by its proponents in China today no less than in India.

While there was never any conscious strategy of mobilizing labour for capital formation in India, an expansionary fiscal stance up to the 1980s including expanding rural development expenditures, and a system of market intervention via state procurement or commodity board procurement of crops at prices covering production costs, were together conducive to maintaining reasonably buoyant levels of activity and inducing private investment, so that employment in rural India was expanding faster than the labour force up to the early 1990s. True, the inequality of distribution of assets and incomes was not addressed and actually worsened slowly over time, but absolute downward movement of real incomes for rural populations did not take place except briefly in the mid-1960s.

In the late 1970s and early 1980s a number of studies were carried out, many under ILO auspices, which correctly argued that there was scope in poor developing countries for more intensive cultivation and greater labour absorption within agriculture and side-line activities. The intensity of cultivation was substantially lower in India compared to East Asia both in terms of material input use and labour use per unit area, and yields were capable of being raised. This technical slack could be taken up provided price –cost conditions were created to make it profitable to invest in cultivating intensively.

From the early 1990s onwards however the entire theoretical discourse was radically altered by the incessant pushing by international financial institutions of conservative neo-liberal dogmas which advocate expenditure deflation and fiscal austerity no matter how high unemployment might be, and which represent a reversion to pre-Keynesian theory, with a few frills added. A surprising number of economists in India who were sensible advocates of development planning earlier have allowed themselves to be intellectually hegemonized by this old-new discourse and are now writing far from sensible things. We do not find on their part any facing up to the present reality of increasing rural unemployment, falling rural incomes, and declining mass nutrition brought about by misguided public policies, but merely the most illogical rationalizations of existing trends. Increasing unemployment and hunger are being officially rationalized as normal development, voluntarily chosen dietary diversification and reduction in poverty.

The impact of neo-liberal reforms from 1991 has been extremely adverse on rural employment and incomes because it has entailed contraction not only in public investment but also in development expenditures, lowering the level of activity and affecting the inducement to invest of farmers. The redefining of priority sector lending led to well-documented reduction in bank credit to farmers and enforced reliance on high-cost moneylender credit, while rising material inputs prices encountered stagnant or falling output prices after the mid-1990s as protection was lowered and the economy was opened up to the vortex of global prices. Farmers facing adverse price scissors and falling internal demand lost viability, a feature not only specific to commercial crops but pervading all farming activity, and could no longer invest enough to maintain yields .

All these factors entailed a massive decline in aggregate demand, ultimately reflected in a record decline in the inflation rate. (The CPIAL shows 60 percent rise between 1993-4 and 1999-00 but a mere 11 percent rise between the latter date and 2004-5 even though foodgrains output was stagnant over the latter period). The decline in aggregate demand was added to by attempts to cut the food subsidy by reducing the numbers accessing subsidized foodgrains, by labelling them arbitrarily as 'above poverty line'and by raising the issue price. Like the paradox of thrift however, every attempt to cut subsidy will boomerang and actually raise the total subsidy, for holding the resulting unsold stocks. There was a drastic fall in off-take of food grains from the PDS as the poor were priced out, increasing hunger and the build- up of 40 million tonnes of excess stocks by 2002 while the food subsidy ballooned. Oblivious of the most elementary theory, the government proceeded to make matters worse by exporting rather than restoring demand through food-for-work, by freezing the MSP for foodgrains, deliberately undermining the system of procurement at assured prices, while market intervention of the commodity boards for commercial and export crops was also drastically reduced.

Our farmers have been always highly responsive to the market and the signals sent out by the state. The final adjustment under this all-out attack on their viability had to be through the collapse of output, and that is indeed what has happened. The all- crop growth rates have less than halved and food grains output has become completely stagnant in the present century. The primary and major reason for growing rural unemployment is this collapse in the sphere of production entirely brought about by public policy, because with constant labour coefficients (labour days per unit of output) the growth of employment is bound to have halved as growth rates halved. In addition lowering of labour coefficients has also taken place owing to cropping pattern shifts and mechanization. What we see today is a pervasive agricultural depression which started nearly a decade ago, and crisis situation in particular regions of export crops production as farmers additionally had to face the downward volatility of global prices in a context of withdrawal of state support. The central government continues to sign regional free trade agreements adversely affecting farmers of particular states with no regard for the fact that agriculture is a state subject.

4. Tertiarization of the Economy does not solve Unemployment

One of the more surprising aspects of current discussions on unemployment in India is the total amnesia regarding all previous literature on the impossibility of industrialization leading to notable labour shifts out of the primary sector. We hear the opinion aired by many economists that it is high time the Indian labour force started shifting out of agriculture and into the secondary sector, as though it is a question of subjective wishes and desires and not objective constraints, the latter being far more binding today than was the case three decades ago. Further the prospects for labour absorption in agriculture and in industry have been worsened greatly by the public investment reducing, development expenditure deflating and labour-retrenchment policies which are at the core of economic reforms, and which are supported in the main by the same economists who argue for industrialization and more free trade as the solutions to unemployment. They appear to be either unaware of or deliberately choose to ignore the contradiction in their position: how public investment and expenditure deflation, fiscal austerity, 'downsizing' and reduction in public utilities employment can possibly be compatible with expanding aggregate demand and maintain the inducement to accumulate in the material producing sectors – agriculture and industry – is a question which does not appear to exercise their minds. Nor can it be seriously maintained that India is in a position to export unemployment in the manner today's advanced countries had done.

As might be expected of public policies which are expenditure deflating and also involve direct labour retrenchment, the actual results during the last 16 years of economic reforms has been to reduce the growth rate of the material productive sectors especially agriculture and raise unemployment sharply in these sectors while promoting a luxury goods and services boom. As income distribution regresses and the share of surplus in output rises, namely a minority enriches itself, monetized services of all kinds – personal, catering and hospitality, communication and financial services - have been growing fast. The corporate sector has thrown itself into meeting the demands of the well-to-do minority for white goods and automobiles even as per capita cloth consumption by the masses in rural India declines. If there was planning for employment generation earlier, neo-liberal reforms have entailed unemployment generation in the material productive sectors and an almost exclusive reliance on services mainly for the minority rapidly enriching itself, to take up the employment slack.

Such shifts in the sectoral contribution to GDP and employment as have actually taken place in the era of neo-liberal reforms (Tables 1 and 2) represent complete stagnation in manufacture's share in GDP and reduction in its share in employment, which qualifies for the term 'de-industrialization'. There has been absolute reduction in employment in mining and quarrying and public utilities. This is combined with deep and pervasive depression in agriculture reducing its share in GDP substantially, with little decline in the labour force dependent on it, implying falling per worker and faster falling per capita incomes (since the work participation rate also declined in the 1990s).

On the other side there is rapid tertiarization of the economy with services growing fast both as share of GDP and in terms of employment. Construction is the only non-service sector providing respectable employment growth. The services sector is by now highly differentiated with a very high income modern segment (the financial, IT-enabled and related services) but with most of the services employment remaining in low-income activities. These shifts reflect underlying rapid shifts in income distribution of a disturbing kind – an absolute decline in real incomes for the major segment of the rural population combined with rapid rise in real incomes for a minority.

Tertiarized growth has not prevented the unemployment rate from rising fast in rural India (Table 5) in the 1990s, while the 61st Round , 2004-5 employment data show no net improvement. The numbers employed per thousand persons in the rural work force, continue to be lower than in 1993-4 for both males and females, and the unemployment rate on the basis of usual status and weekly status has gone up sharply for both rural and urban females, is higher as regards weekly status for rural males though virtually unchanged as regards usual status, while only urban males register a decline in unemployment rate (Report No.515).

Table 1 Percentage Contribution of the Economic sectors to GDP at factor cost, 1983-84 to 2003-04 (Constant values at 1993-94 prices)

Three year average ending in the year:	Agriculture, forestry, fishing, mining & quarrying	Manufac-turing, construc-tion, utilities	Trade, hotels, transport & comm-unication	Finance, real estate & business serivices	All Services	Total
1.	2.	3.	4.	5.	6.	7. (=2+3+6)
1985-6	39.84	22.33	18.53	7.62	37.83	100
1988-9	36.44	23.24	19.18	8.81	40.32	100
1991-2	27.49	24.59	22.28	12.49	47.92	100
1994-5	33.55	23.93	19.37	11.22	42.52	100
1997-8	30.16	25.37	21.12	11.62	44.47	100
2000-1	27.49	24.59	22.28	12.49	47.92	100
2003-4	24.72	24.64	24.61	12.76	50.63	100

Source: Govt. of India, Ministry of Finance, *Economic Survey 2005-06.* Derived from annual series

There are many economists who choose to think that mere high GDP growth rate is what is meant by ‘development’ regardless of the sectoral composition or distributional and employment aspects of this growth. Thereby the concept of ‘development’ is being re-defined by them in a tautological manner to fit whatever is actually observed to be happening no matter how adverse the trends in major economic sectors might be. Halving of growth rates and falling productivity in the most important employment –providing sector, agriculture, agrarian crisis marked by farmer suicides, hopeless indebtedness and large- scale loss of land by poor and small peasants driving them out of cultivation, is

Table 2 Distribution of Workers by Activities

	Agriculture, and Allied Activities	Mining and Manufac-turing	Utilities, Construction	Trade, Hotels transport	Other Services	All Services
Rural Male						
1993-4	74.1	7.7	3.5	7.7	7.0	14.7
1999-00	71.4	7.9	4.7	10.0	6.2	16.0
2004-05	66.5	8.5	7.0	12.1	5.9	18.0
Rural Female						
1993-4	86.2	7.4	1.0	2.2	3.4	5.4
1999-00	85.4	7.9	1.1	2.1	3.7	5.6
2004-05	83.6	8.7	1.5	2.7	3.9	6.2
Rural Persons						
2004-05	72.7	8.6	5.1	8.6	5.0	13.6
Urban Male						
1993-4	9.0	24.8	8.1	31.6	26.4	58.1
1999-00	6.6	23.3	9.5	39.8	21.0	61.6
2004-05	6.1	24.4	10.0	38.7	20.8	59.5
Urban Female						
1993-4	24.7	24.7	4.4	11.3	35.0	46.2
1999-00	17.7	24.4	5.0	18.7	34.2	52.9
2004-05	18.1	28.4	4.0	13.6	35.9	49.5
Urban Persons						
2004-05	8.8	25.4	8.7	33.2	24.0	57.1

Source: NSSO, Report 458, p.75, Report 515 p 142 *passim*. Figures refer to principal plus subsidiary status Note that figures may not add exactly to 100 owing to rounding.

interpreted as 'development'. When W.A.Lewis wrote of rural areas providing an unlimited supply of labour at a constant wage for industry, surely he did not have in mind the perverse case we see today in India where a slow relative shift of male labour out of agriculture where women workers largely remain behind (Table 2), is propelled by agricultural depression and falling per capita incomes for the majority, and the shift is not to industry but to services, to a smaller extent to construction. The last time the share of agriculture in GDP fell in India was during the run-up to Great Depression, for the same reason of the collapse of crop output growth both in physical and value terms, and that period too was marked by increased construction and consumption of modern goods by the urban well-to-do benefiting from rural depression.

Sharp decline in per capita foodgrains absorption in the economy as a whole owing to the demand-deflation entailed in contractionary neo-liberal policies, increasing hunger reflected in a larger rise than ever before in the percentage of persons unable to access minimum nutrition requirements (at every level of nutrition) not only in rural areas but in the last five years, in urban India as well, are all being rationalised and encapsulated under 'development'.

The last feature of neo-liberal growth, decline in nutrition and rise in poverty, is not even cognized by the planners who have de-linked their estimates of poverty line from any nutrition norm whatsoever (Patnaik 2007), and are thereby deluding themselves into believing that poverty is declining or at most is unchanged when the converse is the case. Table 3 calculated from the 61st Round, 2004-5 nutrition data released recently shows that 87 percent of rural population is below the RDA of 2400 calories, nearly 70 percent is unable to access 2200 calories, and these figures are up by over 12 and 11 percentage points respectively from the 1993-4 figures. State wise estimates (not presented here) show that 13 out of the 15 major states of India have experienced worsening poverty or greater poverty depth over the decade of economic reforms.

Table 3 Poverty Estimate 2004-05, All-India Rural

Direct Estimate				
Levels of Calorie Intake per day	***2400***	***2200***	***2100***	***1800***
Required Monthly per capita expenditure in 2004-5 to access nutrition level, Rs	795	575	515	342
Percent of persons below specified nutrition level,2004-5	87.0	69.5	60.5	25.0
Percent of Persons below Specified nutrition level in 1993-94	74.5	58.5	49.5	20.0
Official Estimate				
Official Poverty Line,	*1993-4*		*2004-5*	
Rs.	206		356	
Percent of persons below OPL	37.3		28.5	
Calorie Intake at OPL	1980		1820	

Source: Direct estimates calculated by author from NSS Report 513, *Nutritional Intake in India,2004-05*, A-18, A-90. The Uniform 30-day recall ogive is used as the calorie intake data are presented by the same expenditure classes and distribution of persons. Note that ‘decline’ in official poverty ratio is not real as the corresponding nutrition level is changed over time.

Worsening nutrition figures which reflect falling employment and incomes in rural India are consistent with the results of the Situation Assessment Survey carried out by the NSS which shows that by 2002-03 only 3.8 percent of all farming households had enough income from all sources to meet their consumption while 96.2 percent were in deficit. With such pervasive income deflation it is not surprising the net investment in productive assets for over 85 percent of households was below Rs.150 per household and the average was a paltry Rs.124. To adjust for the fact that 2002-3 was a drought year if we reduce the 96 percent rendered unviable by public policy by10 points, it still leaves 86 percent as deficit farmers, about the same ratio as that consuming below the RDA today.

Table 4 All –India Rural: Farmers' Monthly Income from all Sources, Consumption Expenditure and Investment in Productive Assets, (Rs), 2002-03

Area Possessed Ha.	*NET* Wages	*INCOME* Cult. Income	*RECEIPTS* Animal Farming	NFB	Total	Cons-umption	Balance	Inv. in prod. Assets	Surplus/ Deficit	Percent of HH	Cum. % of HH
1	2	3	4	5	6	7	8 = (6–7)	9	10 (8 – 9)	11	12
< 0.01	1075	11	64	230	1380	2297	- 917	40	- 957	11.6	11.6
0.01 – 0.4	973	296	94	270	1633	2390	- 757	37	- 794	34.0	45.6
0.04 – 1.0	720	784	112	193	1809	2672	- 863	96	- 959	27.6	73.2
1.0 – 2.0	635	1578	102	178	2493	3148	- 655	151	- 806	15.1	88.3
2.0 – 4.0	637	2685	57	210	3589	3685	- 96	387	- 483	7.9	96.2
4.0 – 10.0	486	4676	12	507	5681	4626	1055	685	370	3.3	99.5
> 10.0	557	8321	113	676	9667	6418	3249	737	2512	0.5	100.0
ALL	819	969	91	236	2115	2770	- 655	124	- 779	100	

Source: 59th Round, NSS Report No. 497, *Income, Expenditure and Productive Assets of Farmer Households,* Table A-192. Column 8 is (Col.6- Col.7) and Column 10 is (Col.6 – [col.7 + col. 9) and these have been calculated by the author. Note that only the top 3.8 % of all households, earned enough to meet consumption expenditure.

Table 5 Employment Decline in Rural India, 1993- 1999

	Year 1983	Year 1993-1994	Year 1999-2000	*Growth per Annum* 1983 to 1993-4 %	1993-4 to 1999-00 %
RURAL					
1.Population, mn.	546.6	658.8	727.5	1.79	1.67
2.Labour force, mn.	204.2	255.4	270.4	2.15	0.96
3.Work force mn.	187.9	241.0	250.9	2.40	0.67
4.Unemployed mn. (2 –3)	16.3	14.4	19.5	- 1.19	5.26

Source: Govt. of India, Ministry of Finance, *Economic Survey 2002-03,* p.218, based on NSSO .

5. What is Solution to the Employment and Livelihoods Problem?

First, the revival of agricultural production is essential for reviving employment For this a large-scale revival of food grains and other crops procurement at realistic support prices giving an adequate return to farmers, is essential. Without price support, the 137 million farming households in deficit, will have no possibility of regaining viability and resuming investment to raise productivity which is required to bring the growth rate back on track. The revival of agricultural production is essential not only for reviving employment and aggregate demand but also on food security grounds. The primary sector is not called 'primary' for nothing. Half the national income is being generated now in the tertiary sector, and the increasing market demand for primary products for consumption emanating from this sector, impacting on recently stagnating food grains output and decelerating animal products output, is leading to inflation. There is a genuine danger that a most regressive inflation-targeting 'solution' is likely to be undertaken by a government dominated by neo-liberal thinking, namely more income-deflating, unemployment-raising measures for the already poor to further reduce their aggregate demand, combined with imports to satisfy the burgeoning demand of the urban middle class, thus further undermining our own farmers' viability.

Nothing is more ill-informed than the oft-heard argument that Engel's Law implies reducing demand for foodgrains as incomes rise for those enriching themselves hence there is no harm in the current stagnation in foodgrains output. On the contrary, not even the direct demand for foodgrains reduces as incomes and expenditure rise: there is a clear positive correlation between expenditure levels and direct cereals and pulses intake in the NSS surveys[3]. Second, the indirect demand for foodgrains, which double as animal feedgrains, always rises fast as incomes rise, since the income-elasticity of demand for animal products in developing countries is about 1.6. Stagnation of output will hurt those already below minimum nutrition levels. As the purchasing power of the well to do minority in a population rises, it alters the structure of the final use of food grains more and more towards conversion to grain-intensive animal products, processed foods and industrial uses (starch, alcohol, vehicle fuel), leaving that much less out of stagnating output, for direct consumption by the poor whose purchasing power is being curtailed through unemployment. A profuse consumption diversification by the mainly urban rich combined with inability to access basic nutrition by increasingly impoverished millions, is what we observe from the nutrition data already quoted. Trends in employment, incomes and nutrition are all inter-related and cannot be discussed in a compartmentalized manner.

Second, to moderate the unemployment and livelihoods problem, a strongly expansionary fiscal policy with much higher rural development expenditures amounting to at least 4 percent of NNP, and a genuine commitment to implementing the National Rural Employment Guarantee Act is required. Combined with doing away with the senseless APL-BPL divide and restoring a universal PDS, this would be sufficient to lift the agrarian economy out of depression and set in motion a virtuous cycle of employment

[3] In 61st Round, 2004-5 for All-India it ranged from 10.3 kg to 14.6 kg. per capita per month in the lowest and highest per capita expenditure class. In the major states however the range was from 9 kg. to 17 kg.

and income generation. When we spell out these obvious measures however, it is at once evident how unlikely the present government is to implement them, since its policy makers are completely in thrall to irrational deflationist ideas. The passing of the NREG Act after the UPA government assumed power in 2004, was preceded by the notification of the Fiscal Responsibility and Budgetary Management Act which is directly antithetical to employment generation. It is very clear by now that the government has no serious intention of implementing the NREG Act to reverse the unemployment trends, while it is sincerely committed to implementing the FRBM Act and its deflationist targets are being more than met, with the ratio of gross fiscal deficit to GDP already reduced to 3.7 percent by 2007.

How was this achieved? Once again the deflationary hammer has been mainly on rural areas and the unorganized poor. In the budgetary allocation of funds all previously existing employment generation programmes were clubbed together and a meagre 10 percent added to give Rs.12,900 crores outlay on NREG for fiscal 2006-7. For fiscal 2007-08 even this meagre allocation has been actually reduced, even though the number of districts to be covered has been expanded. There is no centrally directed drive for implementing employment guarantee As long as the fact is not explicitly recognized that increasing unemployment income loss and hunger has been created by the reduction in rural aggregate demand owing to the expenditure deflating fiscal stance of the government combined with removal of price support (and this in turn has reduced investment), the importance of seriously implementing the employment guarantee will not be appreciated, it will continue be subverted and there will be further 'slide into the abyss' of agrarian depression and unemployment. Needless to say, 140 million rural families in depression are not going to be rescued by the official 'solution' of the corporatization of agriculture and contract farming, which is aimed at integrating India into the global food chain for filling supermarket shelves abroad and supplying corporate retail outlets meant for the local urban well-to-do. On the contrary, it will simply further severely undermine food security for the rural poor as more land is diverted away from foodgrains, reduce employment for petty retailers, and lead to no net employment generation as cropping patterns will shift simply by substituting existing crops by new ones within a constant sown area.

The government and the planners have neither analyzed the employment and livelihoods depression correctly, nor will their proposals to make Indian agriculture a mere supply source for foreign and local supermarkets, do anything but worsen the problem. It is intellectually infantile to say that this is a 'depressing scenario' and build up a false picture of positive outcomes. The practical result of the official refusal to face up to the reality revealed by every data source we have, is likely to be failure to undertake any measures to check the worsening of income distribution, while a regressive use of demand management is the logical corollary, in order to curtail further the purchasing power of the unorganized poor so as to accommodate the consumption demands of the well-to-do. The proposal to remove the so-called 'above poverty line' persons – who are actually poor – altogether from the ambit of the PDS, is one indicator of this regressive strategy.

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