



ENTREPRENEURSHIP IN INDIA – THE WAY FORWARD TO REINVENTING AGRICULTURE LABOUR MARKET

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ABSTRACT

The latest labour data reveals that urban employment is comparatively higher in India than rural unemployment. This is attributed to increased rural-to-urban migration which has increased the employment load on urban centres. A review of past literature shows that growth in rural areas is important for the economy's holistic development. Studying secondary sources of labour data also shows that Lewis's theory does not apply to India since the manufacturing sector did not drive much growth. In some instances, migrants returned to farming due to a lack of jobs in urban manufacturing centres. It was the service sector that drove much of the growth in the economy but in terms of employment, it was agriculture that still employed the most. Services cannot hire more labour since they incorporate more technology per labourer. This restricts the role services can have in creating employment. This paper argues for the resumption of the agriculture sector by encouraging entrepreneurship among the farming community through the value addition of agri products.

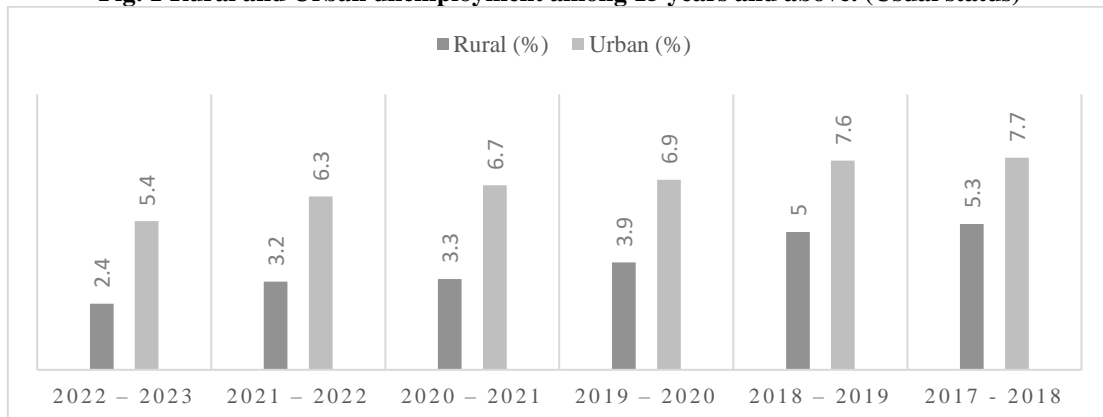
KEYWORDS: Rural Sector, Agri Labour, Entrepreneurship, Sustainable Development Goal 8.

JEL: J10, Q13, Q18

INTRODUCTION

Current unemployment data (Figure 1) shows that urban unemployment is higher in India compared to rural unemployment. This is attributed to the rural agriculture workforce migrating to urban areas in search of work during the non-harvest season. In a study done in 1973, it was found that unemployment rates were found to be higher among agricultural labourers than marginal farmers (Pandey, 1974). These agricultural labourers are landless and depend on marginal farmers for work who in turn would prefer to use family members to work on farms in order to reduce the input cost by avoiding paying wages. This begs the question, of whether there is a way to keep these workers productively occupied. Rural-to-urban migration increases the load on urban employment generation capacity. It is therefore necessary that rural areas be made robust in income and employment-generating occupations so that each area can serve their respective inhabitants. The authors want to provide entrepreneurship in the agrarian space as a way to create income-generating opportunities for the youth.

Fig. 1 Rural and Urban unemployment among 15 years and above. (Usual status)



Source: Authors own compilation from PLFS 2022-23 survey.

India experiences a lot of rural migrants who look for opportunities in the urban cities. This increases the unemployment pressure and population in the urban areas but rural income-generating work like agriculture and



allied activities get affected. The area under cultivation also has been reduced which impacts the yield to be obtained from that area and therefore the income. The Centre for Monitoring Indian Economy has witnessed an increase in the unemployment of youth between 25 and 29 years to 14% from 13% (Forbes India, 2024). The authors propose entrepreneurship among the rural population to attract them to take up these occupations. The rural labour market has to be made robust so that few migrate to urban centres. If high income generating opportunities are available in the rural areas then the need to look for greener pastures is done away with. Capital as a factor spurring structural transformation was the key component in Lewis's model of growth (Gollin, 2014). It begs the question of why the same capital cannot be infused into the agriculture sector to spur structural transformation and increase income generation capability. Lewis seems to believe that some indivisibility exists in the investment that prevents agriculture from receiving the same amount of investment as the modern sector.

OBJECTIVE

This paper looks at how true the Lewis model of growth is in the Indian context. If shifting to successive sectors for employment signals economic growth why is there rising unemployment and rural-to-urban migration? How can this paradox be reconciled? It will also look at whether the rural unemployment scenario present in the country can be dealt with by innovating in the agriculture sector.

LEWIS THEORY OF DEVELOPMENT

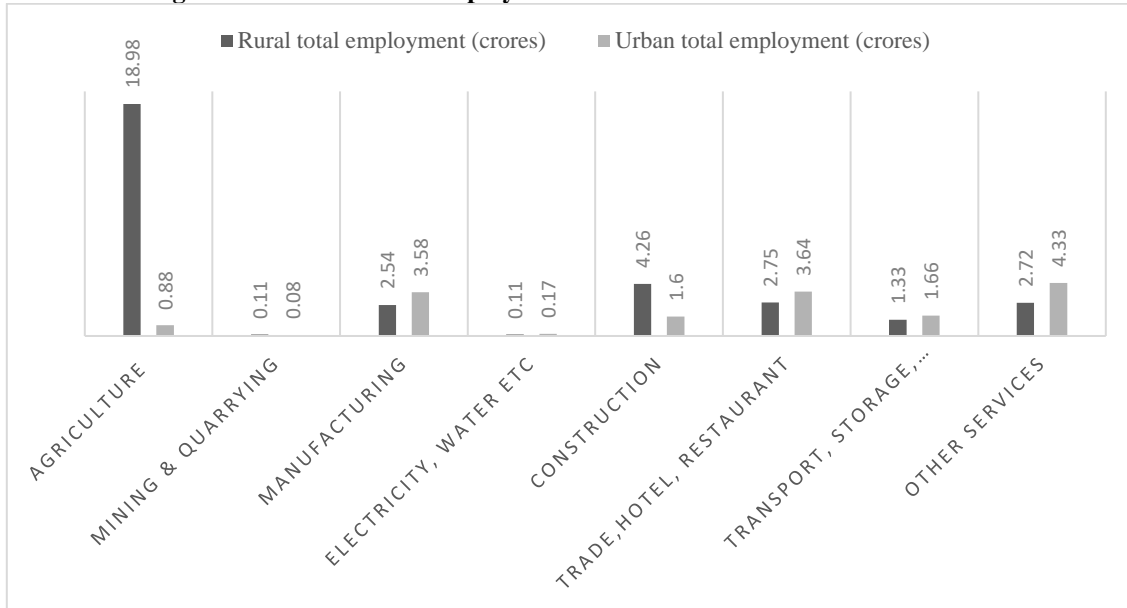
Given the context of the unemployment scenario described above, the authors want to analyse how relevant Lewis's theory can be in explaining and providing a policy solution to the dilemma experienced in India's rural areas.

W A Lewis in his paper 'Economic Development with Unlimited Supplies of Labour' stated that the expanding manufacturing sector could absorb the excess labour present in agriculture and thereby spur economic development. He said the excess labour could be attracted to the manufacturing sector by offering wages higher than those present in the agriculture sector which was at subsistence level. Therefore the growth in the manufacturing sector will act as the catalyst for the economy to grow. The basis for Lewis's theory is the underlying classical assumption that at subsistence wages, there is an unlimited supply of labour. What he meant in other words was that labour engaged in agriculture would gradually decline because as other industries develop labour would migrate where incomes would be high and would cause the economy to grow. Lewis in his theory says that with economic progress those employed in agriculture will decline and that employment in manufacturing will increase because the "income elasticity of demand for food is less than one"(Lewis, 2007, 230).

LEWIS'S THEORY AND THE CASE FOR INDIA

In a paper on urban unemployment, Malenbaum (1957) notes that unemployment was very high in manufacturing, construction and distributive sectors in many urban centres; sectors where major structural shifts had actually taken place. This is contrary to Lewis' theory where he expected manufacturing to be the main driver of growth. Even in the 1950s, urban areas witnessed significant migration (Malenbaum, 1957). The paper points to the need for sufficient investment in rural areas to bring out favourable structural change which is the crux of spurring more employment and controlling migration to urban centres. He also points out that the rapid urbanisation may be in excess of the capacity of industries and the paper stresses the need to reassess employment-generating capacity in rural areas. This, as the paper suggests will require a balanced regional development. This was the situation in the 1950s and doesn't seem to differ much in 2024.

Fig. 2 Sectoral wise total employment in rural and urban areas in 2021-22.



Source: Authors' own compilation from Economic survey 2021-22.

The above finding echoes in Sethuraman's (1974) paper where he notes that labour productivity and employment showed varying trends; trade, commerce and services witnessed rapid growth in employment, mining and plantations had stagnant employment growth and in between them lie sectors like manufacturing, transport and agriculture. Sectors that experienced high labour productivity were due to high capital stock use, thus increasing the capital-labour ratio. It was a conclusion that Sethuraman (1974) had come to as early as 1974 that labour productivity in traditional sectors like agriculture was low due to low capital intensity and was a cause of concern for poverty since agricultural incomes would get affected due to low labour productivity. He suggests diverting technology to traditional sectors to increase productivity and therefore income. He cites that fertilizers, high-yielding seeds, and modern inputs saved agriculture at one point and with the current decline in agricultural contribution, it is time to pivot focus back on incorporating new technology in agriculture. Capital formation in the manufacturing sector is often attributed to economic growth but Bauer (1956) points out that it is in the process of development that capital is formed.

Haan (1997) in his paper studies the relationship between rural-urban migration on poverty and points out that in the last decade, very few jobs have been created in the industrial sector. He also notes that the historical reasons for migration in India were the decline of industrial towns and urban migration therefore declined between 1963 and 1974. This points to the fact that Lewis's theory cannot be completely applied to India's experience, especially since industrial employment stagnated from 1960 to 1990.

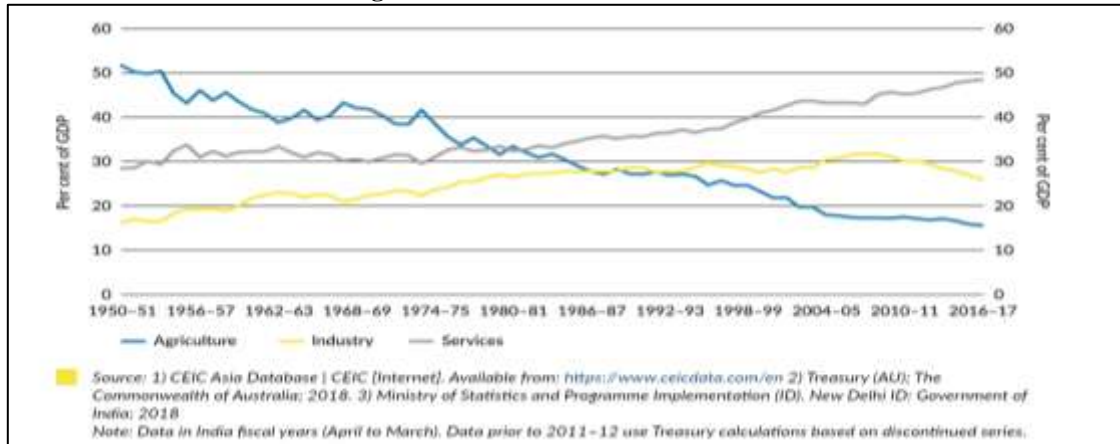
Past literature gave importance to inter-sectoral changes like how growth in a particular sector's output will have an effect on the income of that sector's labourers (Ravallion et al., 1996). They found that the primary and tertiary sectors' output growth was poverty reducing but the secondary sector did not do so. The rural-to-urban migration seen in India did not help to reduce poverty as per the Kuznets growth process. This paper reiterates the unique finding that in India's case, it was the tertiary sector that developed and provided gains to the poor than the secondary sector. One of the drawbacks of Lewis's model is he assumes only two sectors exist but in countries like India, the services sector started driving most of the economy.

Islam et al (2008) in their paper on analysing China's growth through the lens of the Lewis theory found that capital accumulation led to an increase in non-agricultural employment. Lewis' theory's assumption that labour can move from the traditional sector to the modern sector is based on the assumption that the shift in labour will not affect agricultural productivity. However, it has been noticed that the contribution of agriculture to GDP has declined simultaneously as labour employed in agriculture has fallen. They also found out that any growth in employment was due to capital accumulation and new technology incorporated had a negative effect on labour rather than positive. This therefore would mean that manufacturing had an unending capacity to absorb the excess labour. Contrarily (Park et al., 2012) finds that although the employment share in industry and services increases and in agriculture it decreases, the overall employment share is still high in agriculture indicating that agriculture still plays a prominent role in India. But the GDP contribution from services is the highest indicating its role as



the engine of growth whereas agricultural GDP growth has declined. However, it has been witnessed that services have been the main driver of growth in many Asian countries (Park et al, 2012) and not the manufacturing sector.

Fig.3 Sector wise contribution to GDP.



Source: (Varghese, 2015)

The above chart shows how the sectoral contribution of agriculture has fallen but the industry also hasn't performed the way Lewis's theory expects it to. As the labour force grows, economic growth does not necessarily ensure growth in employment opportunities (Sethuraman, 1974). Sethuraman (1974) witnessed in 1966 that employment growth in plantations, mining and quarrying lagged while it grew in trade, commerce and services sectors. Large-scale manufacturing had a per-year growth of 5.7 per cent but this was lower than the services sector. He looked at why employment slowed and found that preference for capital-intensive goods leading to a higher capital-labour ratio worked against the demand for labour. Lewis gave importance to capital investment as the source of growth (Gollin, 2014). Gollin (2014, 82) in his review of the Lewis model states that "there isn't enough capital to absorb all of the economy's labour in the modern sector". (The Wire, 2023) points out that when job opportunities are not available in the markets, people move to farming. It also pointed out that agricultural employment started increasing after 2018 which it cites as the reason for slower structural transformation in the manufacturing sector.

Services Sector Upstaging Manufacturing

In a paper on the role of the services sector in driving growth states that economic growth is a result of productive factors like capital and labour and productivity growth (Park et al., 2012). If these two factors can be ensured for the agriculture sector, then it can be turned into an income generating and employment creating sector. In their paper they studied 12 Asian economies and an analysis of the charts depicting sectoral GDP share shows that the services sector contribution kept increasing steadily over a period of ten years and more whereas for agriculture the contribution declined.

Services are labour intensive but limited in scope for innovation; there can't be new ways of engaging labour, if there is it will be in the form of adoption of new technology which will lead to less requirement of labour. The services sector is full of underemployment due lack of adequate opportunities. Clearly if a nation wants to create employment opportunities it cannot be in the services sector. Because of the above reasons, (Park et al., 2012) reiterate that services cannot be considered as an engine of growth for ever.



Table 1: Industry wise employment (in crores) from 2017 to 2022.

<i>Broad industries (in %)</i>	<i>2017-18</i>	<i>2018-19</i>	<i>2019-20</i>	<i>2020-21</i>	<i>2021-22</i>
<i>Agriculture</i>	44.1	42.5	45.6	46.5	45.5
<i>Trade, hotel, restaurant</i>	12	12.6	13.2	12.2	12.1
<i>Construction</i>	11.7	12.1	11.6	12.1	12.4
<i>Manufacturing</i>	12.1	12.1	11.2	10.9	11.6
<i>Transport, storage, communication</i>	5.9	5.9	5.6	5.4	5.6
<i>Electricity, water</i>	0.6	0.6	0.6	0.6	0.6
<i>Mining & quarrying</i>	0.4	0.4	0.3	0.3	0.3
<i>Other services</i>	13.2	13.8	11.9	12	11.9

Source: Authors' own compilation based on Economic Survey 2021-22.

In the above table, manufacturing has seen the opposite trend witnessed in the agriculture sector. In fact, construction is another area that employs a significant workforce as well. When agricultural employment increased in the early 2000s it was attributed to the increasing number of females entering the workforce due to the income crisis prevalent then (Abraham, 2009). There have been years when agriculture employed the largest workforce but has witnessed a gradual decline in employment while manufacturing has seen an increase in employment. It has also been noticed that the services sector in India witnessed a much higher growth than the manufacturing sector. But it has also been evident that agricultural employment in certain years has been fluctuating along with employment levels in the construction and manufacturing sectors. Keeping Lewis's theory in mind, the decline in agricultural labour should be matched by an increase in manufacturing labour which should have propelled the country's growth. But what happened in India was that the services sector was the main contributor to growth.

Enabling Entrepreneurship

In this context, it bodes well to realize that India has a unique growth chart and the theory laid down by Lewis may not fit the Indian story. There has got to be a saturation point for each sector including manufacturing especially when new forms of technology can replace the manual labour required. Consequently, the country needs to have a political atmosphere of encouraging those with an entrepreneurial spirit to start their enterprises which can create more niche jobs.

The conclusions found by Ravallion et al., (1996) have a significant bearing on the objective of the current paper. Their paper gives crucial conclusions on the role of individual sectors in growth and poverty alleviation that can help identify and target policy to that sector which deserves more focus. Ravallion et al., (1996) in their paper on the importance of sectoral growth for overall growth conclude that the mutual dependence each sector had on growth highlights the need for the rural economy to grow as well. They also inferred that urban growth had no visible effects on the rural economy. It therefore points to the need for rural centres to have their own income and profit-generating occupations. It was found that the primary sector along with tertiary helped reduce poverty nationally and in rural areas, whereas the secondary sector fell short in that regard. Ravallion et al., (1996) suggests improving the primary and tertiary sector's role in reducing poverty while the authors of this paper want to focus on revitalising the role of agriculture in the rural economy. It is in this context and based on the SDG (Sustainable Development Goal) 8 that has a goal of ensuring decent work for all that the authors put forward the suggestion of engaging more youth in entrepreneurial activity as the means of providing decent work. Setting up small-scale industries and marketing those products in cities will give them a dedicated market to sell their goods. The literature discussed also emphasised the importance of high capital investment to spur an entrepreneurial attitude. Given the high incomes earned in cities, rural youth too aspire to earn that level of income. High inequality in



land ownership mainly due to the presence of absentee landlords is one cause that has affected productivity. During the 1990's productivity was affected due to low public investment and low rural bank branches which affected credit disbursal. Liberalisation led to lower restrictions on agri imports which again dampened agriculture incomes.

In the initial days after independence, the urgent need then was to feed the population and avoid famine and sickness. The food security problem was met by introducing green revolution techniques that helped farmers increase yield and production, use the latest technology and manage to feed the population and keep famine at bay. These changes helped farmers and agri labourers earn enough to make ends meet.

In a paper analysing the effect of the Green Revolution on agriculture labourer wages in the 1960s reveals that wages hadn't witnessed much of an improvement despite the adoption of the Green Revolution in the IADP (Intensive Agriculture District Programme) districts and this was partly due to increased cost of living (Bardhan, 1970). But now the demands and needs of farmers have changed. Children born in farming households see the difficulty their parents face and want to move on from farming to other lucrative, high-paying jobs with ease of life. These aspirations are not wrong but for the economy to have healthy growth, the agriculture sector too has to grow. This calls for the latest technology to be used in the primary sector too. In a recent report in The Hindu by Ramakrishnan (2024) on problems faced by farmers in the Cauvery delta showed that youth were reluctant to take up agriculture and the existing farmers felt that if it could be shown that agriculture could be carried out successfully then they would be drawn towards it. One way to do this was to diversify farming activity by taking up agriculture value addition projects.

The Government of India has numerous schemes like Pradhan Mantri Mudra Yojana, Deen Dayal Upadhyaya – Grameen Kaushalya Yojana, Start-up Village Entrepreneurship Program and Attracting and Retaining Youth in Agriculture scheme that focus on providing financial assistance, skill development, wage employment, access to technology, market linkages to those who want to become entrepreneurs.

These schemes broadly focus on areas that require government assistance but what is also required is dedicated training in the areas they want to set up business in. Rural banks can provide financial training where they explain all about applying for credit, paying back loans and sound financial management so that they run their business profitably. Most rural residents do not have sufficient knowledge about financial planning. Next, they need to know how and what type of technology is best suited for their choice of crop. How to maximise the utility of that technology requires training which specialised institutions that Agricultural Universities can provide. Each district should recruit agriculture graduates to be present to the farmers to provide assistance regarding agriculture. Farming districts should have tie-ups with business institutions that can train budding agri-entrepreneurs on how to market their products.

A guide put out by the FAO in 2012 titled Entrepreneurship in Farming reiterates the need for assistance from agriculture extension workers and supporting institutions to turn farms more entrepreneurial. Some of the bottlenecks the guide mentions that farmers face in setting up enterprises are marketing constraints, lack of financial, training and support services; unsupportive laws, inadequate infrastructure, social barriers, and information asymmetry hinder taking up employment in agriculture (Kahan, 2012). Earlier farming used to be for self-sustenance purposes but now with the changing global economy, the youth are also desiring a better, higher and more comfortable standard of living. Farmers have realised that it is only in the selling of the final product that more income can be made; meaning adding value to the goods produced is the key. Turning the paddy produced into rice cakes, rice flour or puffed rice requires an entrepreneurial mind-set.

CONCLUSION

SDG 8 sets out a goal that is vital for an individual's holistic development. Although assuring decent work can be complex, it is important that productive employment opportunities be created to engage the citizens. This paper focuses on providing productive opportunities in rural centres specifically to those from agricultural backgrounds through encouraging entrepreneurship. Although the global economy is focussing mostly on technology and services, the authors are looking to revive agriculture since it has the capacity to scale up and absorb newer technologies. This necessitates the need to have a robust rural economy that can employ its residents and, in this regard, the authors suggest entrepreneurship in agriculture to provide decent work for those in the rural areas.

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