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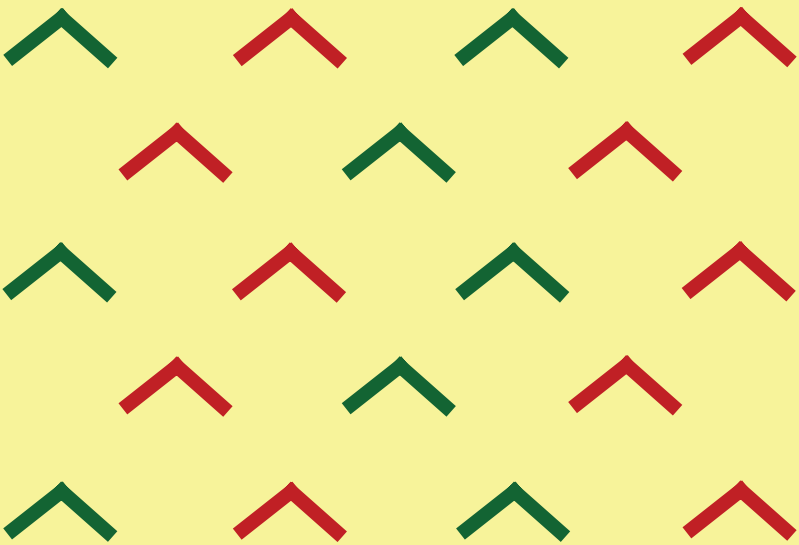
Limits of Subnational Development

KALAIYARASAN A.



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Structural Change in Tamil Nadu, 1980–2010: Limits of Subnational Development

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Structural Change in Tamil Nadu, 1980–2010: Limits of Subnational Development

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Abstract

Despite high levels of economic growth over the last 2 decades, a fundamental problem confronting policymaking and the Indian economy is the inability to structurally transform the economy. While the share of income from agriculture has been falling, the share of employment in agriculture continues to be high. Absence of infrastructure, governance, and human capital are often cited as explanations for this inability. Taking the case of Tamil Nadu, a state with one of the best parameters of structural transformation in the country, I argue that despite investments in human capital and physical infrastructure, constraints persist. Second, I argue that regional state action, through certain welfare measures, has paved the way for addressing to a limited extent, the adverse outcomes of such constraints.

The state of Tamil Nadu has acquired an iconic status for its ability to combine economic growth and human development in recent times. Although it was among the richer states in the 1980s, its ability to sustain growth and grow much faster than others was remarkable and defied orthodox economic logic. Textbook economic theory suggests that, due to 'diminishing returns to capital', poorer regions grow faster, catching

up with richer ones, and embrace the path of convergence over time.[1] Yet Tamil Nadu managed to sustain growth and deepen the process of economic transformation.[2]

The transformation has been led by broad-based growth in economic sectors, spatially widespread, and socially inclusive, but has faced its own challenges. For instance, the mismatch between the proportion of income generation and the workforce engaged among sectors continues to persist. Such divergence between income and workforce would have serious, negative implications for the well-being of people engaged in certain sectors. While the state has generated relatively more jobs in manufacturing, when compared with other developed states[3] in India, it has been unable meet the emerging demand among educated youth for jobs. The other sector that absorbed jobs has been the construction sector. Following the global trend, the factory sector has seen a decline of wage share in the total value added. However, the share in the state is better than that of other developed states. Further, there has been an increase in the share of wage workers—both casual and regular—compared to self-employment, probably driven by the increase in casual jobs generated in construction sector and regular wage in manufacturing and service sectors.

State responses to these structural changes have been twofold: first, in an indirect route, the state introduced a slew of universal welfare measures, including Public Distribution System (PDS), that work as a wage premium to support labour; second, directly, the state built a range of welfare boards to deal with the concerns of casual labourers.

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[1] Kar and Sakthivel (2007) pointed out that the 1980s–2000s had seen greater divergence in regional growth performance in India. They noted that, compared to the rest of the country, the western and southern regions had grown at a much faster rate and consolidated their earlier gains.

[2] Structural transformation (or economic transformation), as used in this paper, indicates change in sectoral drivers of income and employment and linkages among sectors.

[3] For comparison, I use Gujarat and Maharashtra for developed states and all-India averages. This comparison helps us differentiate the nature of structural transformation in Tamil Nadu from the rest of India and comparable states.

These measures indicate that the state has acquired an enormous role in addressing the concerns of labour, even in a period where privatisation and marketisation have taken precedence as drivers of resource mobilisation and allocation.

Many scholars have tried to explain development in Tamil Nadu, especially in the context of welfare intervention of the state. Singh (2015) offered insights on how solidarity based on a 'sense of shared identity'—Tamil identity—made social welfare possible in the state, while Harriss (1999) showed how sourcing of power from lower castes/classes mattered for relatively better distributional outcomes in the state. Drèze and Sen (2013) highlighted how the emergence of robust infrastructures of public health and education delivery contributed to improvements in human development, and Agarwala (2013) demonstrated how unorganised sector workers made gains through their collective strategies, forcing the state to constitute labour welfare boards for improving the social security net for them. Besides the work of Vijayabaskar (2011), which linked the state's welfare intervention to economic growth process, based on a case study of Tiruppur, there is no work which accounts for the dynamics of economic growth and industrialisation, and their link with state's intervention in welfare provision. This paper attempts to fill a part of this gap by linking economic growth and the welfare measures that partly addressed constraints generated by such growth.

In the next section, I explore the economic structure and changes therein that have taken place in the last 3 decades in Tamil Nadu. It maps the drivers of growth in Gross State Domestic Product (GSDP) and the dynamics of economic growth, to understand the nature and pattern of industrialisation in the state. The second section offers insights on the links between industrialisation and urbanisation in the state. The third section provides a detailed account of the elasticity of output to employment generation, wage inequality, and other labour market outcomes. This is done in relation to shifts at the all-India level and in comparable states, such as Maharashtra and Gujarat. The fourth section presents strategies adopted by the state to address contradictions opened up by rapid economic transformation, including strategies that addressed concerns of labour.

Dynamics of Economic Growth in Tamil Nadu

The main purpose of this section is to identify the key drivers of economic growth of Tamil Nadu, by analysing sector-wise growth performance and their contribution to growth. I have used GSDP (at factor cost) data from the 1980s. To make GSDP series comparable across the period under study, the data series has been made constant at 2004–05 prices by splicing.[4]

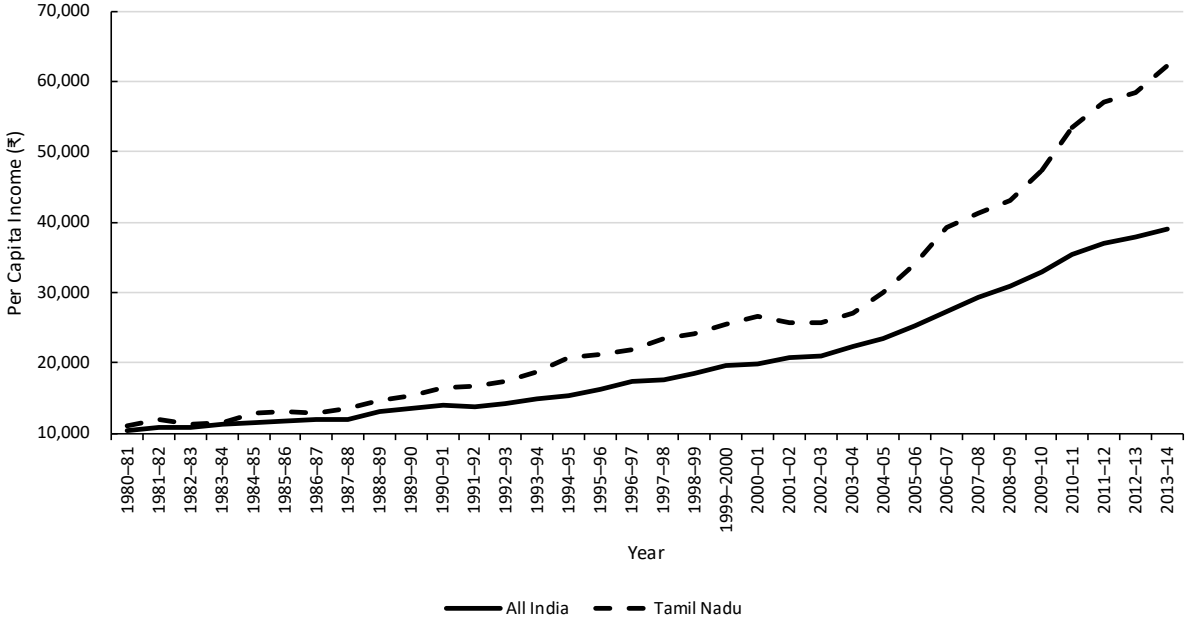
The state has witnessed sustained economic growth and has clocked higher growth than the all-India average in the last 3 decades (Figure 1). The average per capita income (triennium ending) for the state in 1980 was ₹12,082 (at 2004–05 prices), marginally higher (16%) than that of all-India's ₹10,412 (Table 1). It increased fourfold, that is, to ₹48,031 in the triennium ending 2010 while the corresponding figure for all-India was ₹33,013. The gap in per capita income between Tamil Nadu and India widened from 16% in 1980 to 45% in 2010. As shown in Table 1, Tamil Nadu has been consistently performing better in terms of GDP growth compared to the all-India average. The overall GDP growth of the state from 1980 to 2010 was 6.3% per annum, which was slightly higher than the all-India average. When compared with the all-India average, although the growth rate of GDP was only marginally higher in the first decade (the 1980s) (Table 2), the state picked up in the last 2 decades (8%), coinciding with market-oriented reforms initiated at the national level.

When we disaggregate growth in Tamil Nadu, the growth rate of the service sector (7.5% per annum) has been the highest among the three sectors and in line with the all-India trend (7.2% per annum). At the all-India level, the growth rate of the industrial sector was at the top in the 1980s, and the service sector came into prominence in the 1990s; in Tamil Nadu, however, the growth rate of the service sector

[4] India's Central Statistics Office (CSO) publishes GSDP data on a regular basis, with newer base years and better data for previous years. The paper uses data with four different series—1980–81, 1993–94, 1999–2000, and 2004–05. Since we do not have data for all the years (1980 to 2010) with the same base year, using splice technique provided by Kumar and Chandra (2003), data with the different base years were converted to the same base year.

Figure 1

Per Capita Income (in Rupees at 2004–05 prices)



Source. Computed from Central Statistics Office (CSO) data (various years).

Table 1

Per Capita Income

Period	Tamil Nadu (₹)	All-India (₹)	Ratio of Tamil Nadu to All-India (₹)
1980[a]	12,082	10,412	116
1990s	15,492	13,572	114
2000s	25,412	19,345	131
2010s	48,031	33,013	145

Source. CSO (various years).

Note. Values are at constant (2004–05) prices.

[a] Triennium-ending (TE) value: y/t = (yt-2 + yt-1 + yt)/3.

has been at the top from the 1980s. Among subsectors in the service sector, 'banking and insurance' has recorded the highest growth rate in both Tamil Nadu and all-India for the last 30 years. (It is followed by transport and communication.) Banking and insurance has grown at the rate of 11.6% per annum for both India and Tamil Nadu for the period 1980–2010. Significant in the growth rate among subsectors in services in Tamil Nadu is that of real estate–related activities. The growth rate of real estate (12.5% per annum) is the highest for any sector or subsector in India and Tamil Nadu. It is to be remembered here that the rate and level of urbanisation have been higher in Tamil Nadu than in any other state in India. It may be argued that urbanisation and land market have some correlation.[5] The growth of the manufacturing sector has been marginally lower in the state than all-India in the whole period under study, despite growth in the state being higher from the 2000s. Agriculture experienced lower growth rate in the state—the sector grew at 3.1% per annum in Tamil Nadu in the last 3 decades, while the comparative all-India figure is 2.7% (Table 2). Despite this marginally higher growth, the sector has been stagnant, as its relative contribution

[5] Land, which was beyond the purview of exchange, gets translated into commodity, and this process has deep linkages with speculative activities associated with real estate.

to aggregate growth has been declining faster than that of all-India; this becomes evident in the following sections as we discuss the structure of growth.

Sectoral Contributions to Aggregate Growth

Table 3 details the contributions of different sectors to growth in India and Tamil Nadu. The contributions of the service sector, the key driver of growth in the last 3 decades for both Tamil Nadu and all-India, to the growth rate for the 1980–2010 period were about 63% for Tamil Nadu and 61% for all-India. The sector alone has contributed about 64% of the growth in Tamil Nadu in the last decade, whereas agriculture's contribution to growth in the last decade was merely 4.1%. The contribution of the service sector to the state's growth was 55% in the 1980s, and it increased to 64% in the 2000s. The corresponding figures for the same periods for all-India were 49% and 61%, respectively. Among subsectors within the service sector, 'trade, hotels, and restaurants' contributed about 17% to the state's growth in the last 3 decades. The corresponding figure for all-India was 16%. The contribution of industry to growth was 28% in the 1980s, and it increased to 32% in the 2000s. The corresponding figures for all-India were 32% and 29%, respectively.

This growth process has been accompanied by a transformation of the structure of the economy, with some sectors becoming key drivers and others lagging behind (Table 4).

Structure of Economy

The service sector contributed about 60% to the state's income in 2009–10. It was followed by industry (31%) and agriculture (9%). The corresponding figures for all-India were 57%, 28%, and 14% respectively. The change over time has been enormous for Tamil Nadu as well as India. The service sector's contribution to the state's income was about 40% in 1980–81, and it increased to 60% in 2009–10. Similarly, the contribution of the service sector to all-India GDP increased from 36% in 1980 to 57% in 2009–10 (Figure 2).

Among subsectors in services, 'trade, hotels, and restaurants' maintained the prominence in their contribution to GDP for India and Tamil Nadu, across the period under study. In recent times, real estate–

Table 2

*Gross State Domestic Product Growth Rate by Basic Economic Activities (CAGR)**

Sector	Tamil Nadu				India			
	1980–1990	1990–2000	2000–2010	1980–2010	1980–1990	1990–2000	2000–2010	1980–2010
Agriculture	3.9	2.4	3.0	3.1	2.6	2.5	2.9	2.7
Industry	4.1	5.1	8.2	6.0	6.0	5.4	7.5	6.6
Manufacturing	3.2	4.3	8.6	5.4	6.4	5.9	7.7	6.9
Services	5.7	6.9	8.9	7.5	5.5	6.7	8.3	7.2
Transport, storage, & communication	5.4	6.4	10.2	7.7	5.3	7.3	8.3	7.4
Trade, hotels, & restaurants	4.7	7.8	8.6	7.3	6.4	6.5	11.1	8.5
Banking & insurance	10.8	10.0	9.5	10.9	11.8	9.8	11.3	11.6
Real estate & business services	6.0	5.6	10.4	7.6	3.2	4.6	7.7	5.5
Public administration	7.7	7.0	4.8	6.6	6.4	5.8	6.2	6.3
Other services	4.6	5.2	7.7	6.0	5.0	6.9	6.0	6.4
Gross State Domestic Product	4.8	5.5	8.0	6.3	4.6	5.2	7.1	5.9

Source. CSO (various years).

Note. * Triennium-ending (TE) values y/t = (yt-2 + yt-1 + yt)/3 are used at both terminal years. CAGR = Compound Annual Growth Rate.

Table 3

Sectoral Contributions to Growth of Gross State Domestic Product

Sector	Tamil Nadu				India			
	1980–1990	1990–2000	2000–2010	1980–2010	1980–1990	1990–2000	2000–2010	1980–2010
Agriculture	16.7	7.4	4.1	6.0	18.6	12.4	7.3	9.7
Industry	28.2	29.2	31.6	30.7	32.1	27.4	29.1	29.1
Manufacturing	16.8	16.5	21.9	19.8	18.2	16.6	16.9	16.9
Services	55.1	63.4	64.3	63.3	49.3	60.3	63.6	61.2
Transport, storage, & communication	8.2	9.2	12.1	11.1	7.7	8.1	13.6	11.5
Trade, hotels, & restaurants	12.4	19.7	17.2	17.2	12.3	17.2	17.1	16.6
Banking & insurance	7.2	10.4	9.4	9.6	6.4	8.5	11.0	9.7
Real estate & business services	11.5	9.4	14.3	12.9	6.9	7.8	9.7	8.9
Public administration	6.3	6.1	2.5	3.7	8.0	7.1	5.4	6.0
Other services	9.4	8.6	8.7	8.8	7.0	9.6	6.4	7.4
Gross State Domestic Product	100	100	100	100	100	100	100	100

Source. CSO (various years).

Table 4

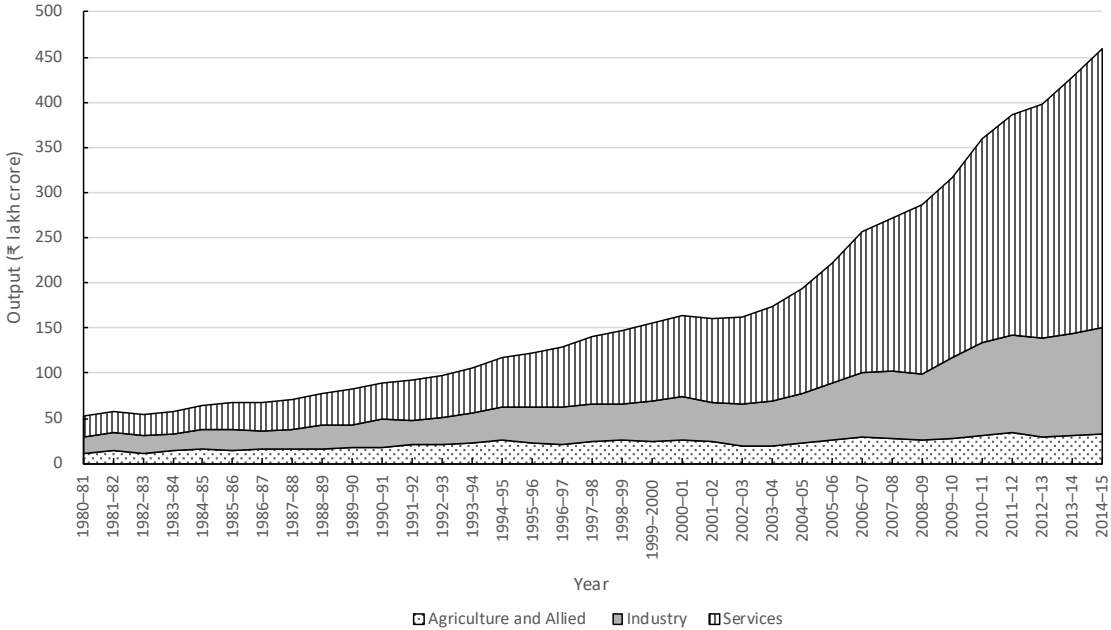
Structure of Economy

Sector	Tamil Nadu				India			
	1980–81	1990–91	2000–01	2009–10	1980–81	1990–91	2000–01	2009–10
Agriculture & allied	24.3	21.6	16.7	9.2	38.1	30.9	23.9	14.5
Industry	35.0	35.1	30.5	30.8	25.9	30.0	25.8	28.3
Manufacturing	27.2	25.0	20.1	21.2	17.7	21.1	15.3	16.1
Services	40.7	43.3	52.8	60.1	36.0	39.1	50.3	57.2
Transport, storage, & communication	7.2	7.2	9.1	10.4	2.8	5.3	8	10.1
Trade, hotels, & restaurants	15.4	15.1	15.3	16.5	12.0	12.5	14.3	16.2
Banking & insurance	3.0	5.3	6.6	8.2	6.0	5.0	7.5	7.8
Real estate & business services	5.6	5.9	6.7	12.2	4.7	5.3	6.7	9.5
Public administration	3.6	4.3	5.5	3.8	5.8	5.7	8.3	6.2
Other services	5.8	5.4	9.6	8.9	4.7	5.3	8.0	7.5
Gross State Domestic Product	100	100	100	100	100	100	100	100

Source. CSO (various years).

Figure 2

Gross State Domestic Product of Tamil Nadu (in Rupees at 2004–05 prices)



Source. Computed from CSO (various years).

related business service has become prominent within service sector, its contribution to GSDP going up from 5.6% in 1980–81 to 12% in 2009–10. The corresponding figures for all-India were 4.7% and 9%, respectively. In the last decade, banking and insurance too became an important subsector within the service sector. Its contribution to GSDP went up from 3% in 1980–81 to 8% in 2009–10. Within services, the modern sectors' contribution to GSDP is higher in Tamil Nadu as compared to all-India.

However, industry's contribution to state income has come down, from 35% in 1980–81 to 30.8% in 2009–10. The corresponding figures for all-India were 25% and 28%, respectively. Manufacturing sector's share in the state income has come down, from 27% in 1980–81 to 21% in 2009–10; the figures for all-India were 17.7% and 16.1%, respectively.

The decline in the contributions of industry and manufacturing to the state's income is compensated by a rise in the contribution of the service sector. The decline in the contribution of manufacturing sector need not be seen as a sign of losing out in manufacturing. It could equally be a result of the penetration of service-related activities within manufacturing, a trend known as 'servitisation' of manufacturing.[6] Compared to all-India trends, however, Tamil Nadu continues to be better on these indicators. For instance, the contribution of manufacturing to the state income in 2009–10 was 20% as against all-India's 16%. Similarly, industry as a whole contributed 31% to the state's income, while the corresponding figure for all-India was 28%. The contribution of agriculture to GDP came down for both Tamil Nadu and all-India—from 24% in 1980–81 to 9% in 2009–10 for Tamil Nadu, and from 38% in 1980–81 to 14% in 2009–10 for India.

In sum, the structure of the economy has moved from agricultural sector to service sector, both at all-India level and Tamil Nadu. Agriculture, however, is lagging behind in Tamil Nadu compared to that of all-India, as its share in state income has disproportionately declined. Correspondingly, the state continues to maintain a better

[6] Neely (2008) argued that increased service intensity in manufacturing enhances the productivity of a manufacturing firm. The emergence of information and communications technologies has restructured the manufacturing production process.

share of manufacturing, industry, and services as compared to all-India. Within service sector too, as compared to all-India, the state has better diversification as evident in the performance of modern subsectors. Inability to boost the share of manufacturing is seen as a major policy failure in India, as it continues to lag behind countries with comparable economic levels (Rodrik, 2015). Given that Tamil Nadu has one of the highest shares of manufacturing, I investigate the linkages among sectors, particularly of manufacturing, in the following section.

Nature of Industrialisation

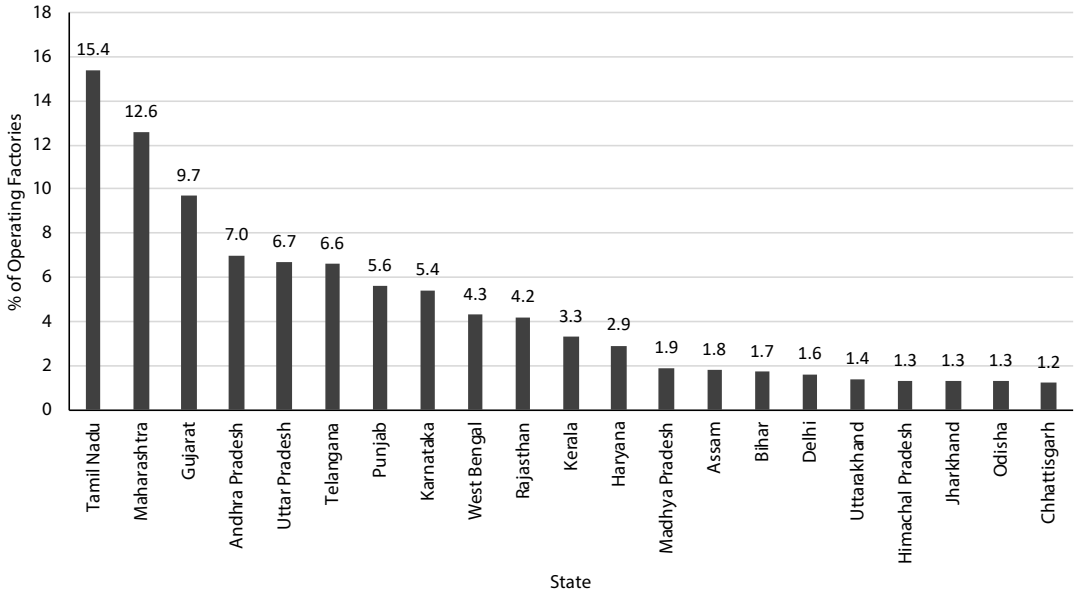
Although the share of manufacturing in its total income has marginally come down in the last 3 decades,[7] Tamil Nadu retains the status of the most industrialised state in the country. It has built a vibrant manufacturing base particularly in labour-intensive sectors, such as textiles, garments, leather goods, and automobile manufacturing. As per Annual Survey of Industries (EPW Research Foundation, 2015), Tamil Nadu has the highest share (15.4%) in the total number of registered factories, ahead of Maharashtra (12.6%) and Gujarat (9.7%) (Figure 3). The state also has the highest share (15.1%) in the total number of persons engaged in Indian registered manufacturing; the corresponding figures for Maharashtra and Gujarat are 13.9% and 10.1%, respectively (Figure 4). In Gross Value Added (GVA), the state stands third (10.0%), after Maharashtra (21.5%) and Gujarat (14.6%) (Figure 5). If we look at unorganised manufacturing GVA, Tamil Nadu accounted for about 12.5% of total GVA of India in 2010–11, between Gujarat (12%) and Maharashtra (13%). The trends in these variables suggest that, compared to Gujarat and Maharashtra, Tamil Nadu has more of labour-intensive industrialisation.

According to Amirapu and Subramanian (2015), in Tamil Nadu, the share of manufacturing has reached as high as 18% of state GDP, which

[7] Swaminathan (1994) argued that 'While maintaining its status as one of the three leading industrial states of the country, Tamil Nadu has, nevertheless, over the years, lost considerable ground and opportunities.'

Figure 3

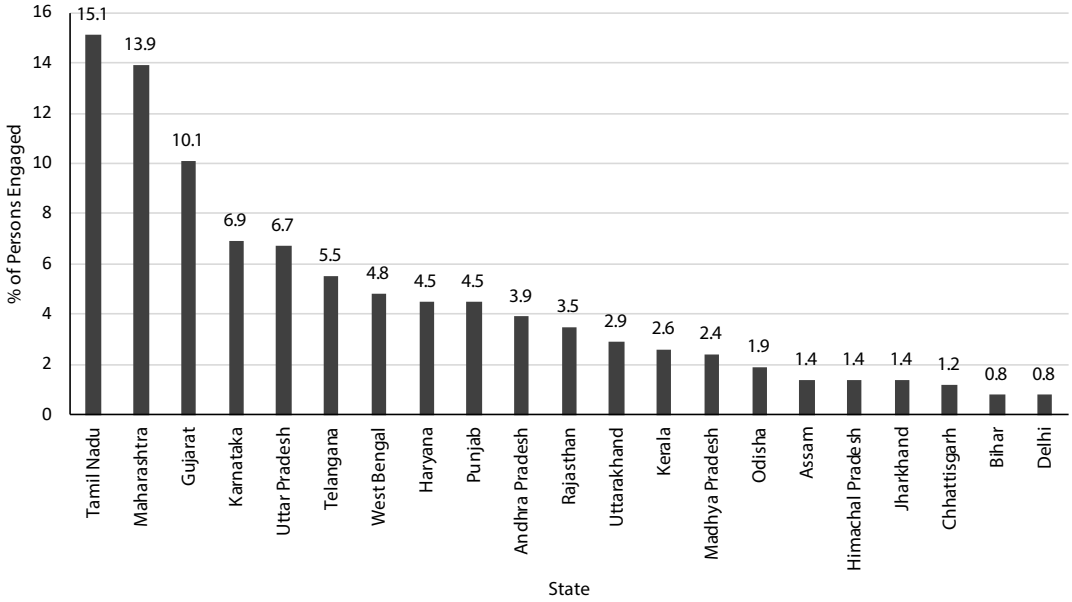
State-wise Percentage of Operating Factories in India (2014–15)



Source. Data from EPW Research Foundation (2015).

Figure 4

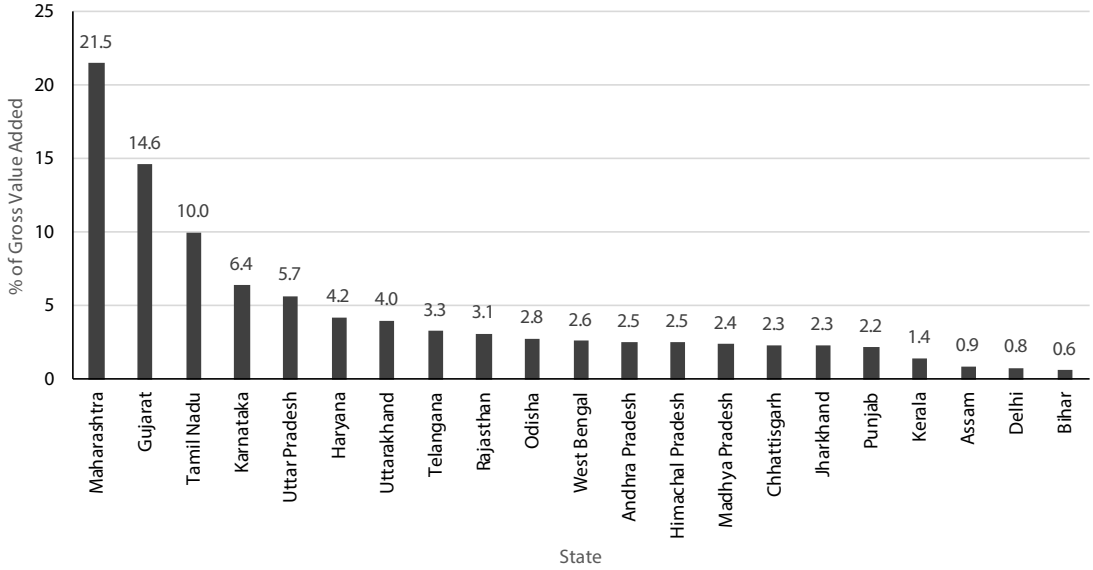
State-wise Percentage of Total Persons Engaged in Registered Factories in India (2014–15)



Source. Data from EPW Research Foundation (2015).

Figure 5

Gross Value Added Across States in India in 2014–15 (In percentage)



Source. Data from EPW Research Foundation (2015).

is second only to Gujarat's 22%.[8] No major state has crossed this figure in the last 30 years. Although Gujarat continues to have the highest manufacturing base in the country, it does not have as broad a base as Tamil Nadu. As Nagaraj and Pandey (2013) showed, export-oriented petroleum refining alone accounted for about a quarter of GVA in registered manufacturing in Gujarat. On the other hand, Tamil Nadu's manufacturing has a broad base. Labour-intensive sectors, such as automobile (18%), textiles (11%), food products (9%), and basic metals (7%), constitute about half of the output in the factory sector in Tamil Nadu.

If we measure the capital intensity of production measured as ratio of fixed capital to total workers, Tamil Nadu has lower intensity, indicating more use of labour per unit of output. The capital intensity ratio for 2000s (decadal average) in Tamil Nadu is 4.4, which is one of the lowest, as against 12.4 in Gujarat and 8.7 in Maharashtra, while the all-India average is 6.8. As a result, the state could retain the position of highest share of organised factory employment in the country. Even if we include the unorganised sector, as per NSSO 2011–12, the state has the highest share (19.9%) of manufacturing to total employment, as against 19% for Gujarat, 12.2% for Maharashtra, and 12.6% for all-India. I discuss this further in the section on employment.

Another measure which partly accounts for penetration of industrialisation is the number of enterprises per given population. As per economic census 2013–14 (CSO, 2016), in the size category of 20–99 workers, Tamil Nadu had 34,599 units as compared to 16,236 units in Gujarat and 30,301 units in Maharashtra. In the category of 100-and-above workers, Tamil Nadu had 3,219 units, while there were 2,675 units in Gujarat and 4,678 units in Maharashtra. If we standardise this into enterprise (size of 100 and above) per population, Tamil Nadu

[8] Rodrik (2015) argued that many countries in the developing world were moving towards premature deindustrialisation. According to him, while globalisation and labour-saving technological progress in manufacturing are driving this development, there are variations within countries based on one's comparative advantage. In his view, India is not able to withstand such global pressures and is succumbing to the phenomenon of premature deindustrialisation.

has an enterprise per 22,684 persons while it is 24,021 in Maharashtra and 22,927 in Gujarat. In other words, Tamil Nadu has a more diffused entrepreneurial base than the other two states. I demonstrate in the next subsection that this diffusion manifests in terms of spatial and social spread as well.

Spread of Industrialisation

To measure the concentration of industrialisation in districts, based on economic census (2013–14; CSO, 2016), I used the Herfindahl–Hirschman Index. The enterprises are relatively better distributed across subregions in Tamil Nadu (than in Maharashtra or Gujarat), indicating the spatial spread of industrialisation. While it is true that the west (Tiruppur and Coimbatore) and north (Chennai and Kancheepuram) are the most industrialised regions in Tamil Nadu, manufacturing is still spatially diverse if one compares the state with Gujarat and Maharashtra. Each region has certain specific industrial clusters—for instance, Sivakasi for safety matches, firecrackers, and printing; Karur, Erode, and Salem for power looms and home textiles; Tiruppur for knitted garments; Ambur, Vaniyambadi, and Ranipet for leathers; and automobiles in and around Chennai (Damodaran, 2017).[9] The region around Chennai acquired the label of 'Detroit of India' as it houses a number of auto majors, foreign and domestic. Many of these clusters in the state are modelled on the concept of 'industrial districts', and as Damodaran (2017) noted, 'Such agglomerations of small and medium-sized enterprises, located in small urban centres, derive comparative advantage from people within the neighbourhood imbibing shared knowledge "as it were in the air"'.

Finally, a significant but less noticed aspect is decentralised industrialisation and entrepreneurship from below. Besides Chennai, most of the regional clusters are known for their non-commercial, agrarian caste base. Many of the entrepreneurs there are from ordinary, peasant, and provincial mercantile castes, as opposed to pan-Indian Bania–Marwari or big MNC capital in other regions (Chari, 2004;

[9] Damodaran attributed the absence of unrest among agrarian communities in Tamil Nadu (unlike among Jats in Haryana, Marathas in Maharashtra, Kapus in Andhra Pradesh, and Patels in Gujarat) to this model of decentralised industrialisation in the state.

Mahadevan & Vijayabaskar, 2014). Economic census (2013–14) showed that of the total enterprises (private-owned) with 100 or more workers, the Other Backward Classes (OBCs) control about 67% enterprises in Tamil Nadu as compared to 11% in Gujarat and 8% in Maharashtra. Dalits own about 6% of total enterprises in this size category in Tamil Nadu. According to All India Census of the registered Micro, Small & Medium Enterprises Development (MSME), Tamil Nadu has the third-largest share (10.2%, against its population share of 7.2%) of Dalit enterprises in the country. The Dalit Indian Chamber of Commerce and Industry (DICCI) also claim that the state is home to one of the highest concentrations of Dalit enterprises in India (Naig, 2015). While Tamil Nadu, along with Gujarat and Maharashtra, acquires the badge of the most industrialised states in the country, what makes it distinct from the other two is this labour-intensive, spatially, and socially inclusive nature of industrialisation, which has drawn a greater share of population out of agriculture.

Urbanisation From Below

Following the spatially diffused scale of industrialisation, we see a distinct pattern of urbanisation emerging in Tamil Nadu. The rate of urbanisation (48.4% in 2011) in the state is one of the highest in the country, against 45.2% in Maharashtra, 42.6% in Gujarat, and 34% all-India. This was not the case 30 years earlier: the state's urbanisation (32.9%) was lower than that of Maharashtra (35%) and close to that of Gujarat (33%) in 1981. It was only in the 1990s that urbanisation picked up in the state, thanks to an industrialisation drive. Ghani et al. (2012) observed that most manufacturing industries in India moved to rural and semi-urban cities in the 1990s; similarly, Tamil Nadu saw such movement of industries from urban to rural or semi-urban cities. Some of these new, semi-urban cities became growth centres, shifting growth poles.[10] The changing

[10] For instance, Kancheepuram, a bordering district of Chennai, has become a hub of the automotive sector. It has about 60% of the new Special Economic Zones established in the state, and one of its villages (Oragadam) was chosen for setting up the Global Automotive Research Centre. For details, see Government of Tamil Nadu (2014).

nature of industrialisation generated 'census towns'.[11] The main driver of urbanisation in the 2000s were these census towns (Kundu, 2011).

Tamil Nadu has been undergoing broad-based urbanisation, with wide spatial spread and strong rural–urban linkages. According to Rukmani (1994), the state ranked first among the major states in the country both in 1981 and 1991 in a composite index of urbanisation, which had taken into account the degree of urbanisation, rural population served by a town, and the average distance to a town from a village. While the state historically inherited a concentration of industries in Madras (Chennai) in the north and Coimbatore in the west, the 1990s saw the expansion of activities in other regions too. Contrary to the general trend that the process of urbanisation is led by metro cities, the state has seen diverse trajectories of urbanisation. For instance, Raman (2017), based on her fieldwork in Tiruchengode and Sankagiri, showed how urbanisation in the state has been independent of metro cities and embedded in the diverse development trajectory of small towns intersecting with local cultural, social, and caste networks.

In addition to this process, two variables shaped the urbanisation process in the state—rural–urban connectivity and transport nationalisation. The emergence of Dravidian parties in 1967 brought in significant increase in the spread and development of the road network of 'minor roads' (roads other than highways, connecting to every major district road) in the state, which has ensured a smooth flow of goods and services across the state. Thanks to nationalisation of bus transport, the state could build one of the best public transport networks in the country, linking most of the rural areas to every nearby town (Karthik & Karunanithi, 2018). Such policies integrated the countryside with the town and created diversification options outside of agriculture, for livelihoods, by enhancing non-farm employment within rural Tamil Nadu.

[11] Many rural areas qualified the criteria for being considered 'urban'—population of 5,000 or above, density of 400 persons per sq km, and 75% of the male population employed in non-agriculture (Sivakumar, 2011).

Employment Structure

Despite the pattern of relatively labour-intensive industrialisation, the state suffers from mismatch and disproportionality in sectoral shares of income and employment. Such mismatch has been observed across the developing world. While service and industrial sectors have overtaken the agricultural sector in income, the latter continues to absorb labour.[12] For instance, agriculture-led primary sector generated about 35% of employment in Tamil Nadu in 2011–12 (Table 5) while

Table 5

Structure of Workforce by Sectors

Year & Sector	Tamil Nadu	Gujarat	Maharashtra	All-India
1983–84				
Agriculture	58.3	66.1	67.3	68.7
Manufacturing	16.8	12.9	10.8	10.5
Non-manufacturing	3.3	2.1	3.5	3.1
Services	21.7	18.9	18.4	17.7
All	100.0	100.0	100.0	100.0
2011–12				
Agriculture	35.2	48.8	49.1	48.9
Manufacturing	20.0	19.7	12.2	12.6
Non-manufacturing	13.9	6.7	6.9	11.7
Services	31.0	24.8	31.9	26.8
All	100.0	100.0	100.0	100.0

Source. Computed from National Sample Survey's (NSS) Employment and Unemployment Survey (EUS) unit-record data of respective years.

[12] Traditionally, agriculture was seen as a sector that provided surplus for industrial accumulation and markets for industrial commodities. However, such intersectoral linkage has weakened over time. As a result, studies argue, the agrarian question of capital has been largely bypassed in India (Lerche, 2013). The sector, at best, provides livelihood for the large mass of surplus labour while relaxing the food constraint in capital accumulation process in India.

it contributed merely about 8% of the total income in the state. On the other hand, the service sector, which generates about 60% of the income in the state employs only about 31% of the total workforce. The shares of employment and income of the secondary sector tend to converge. However, compared to other states and the all-India trend, the pattern of employment generation is more broad-based across sectors in Tamil Nadu. One may argue that changes in employment and income structures in Tamil Nadu suggest a movement closer to the Lewisian tipping point (Lewis 1954/1958).[13] However, given the extent of mismatch in share and movement of employment and income, the state is still under the stage of, what Bardhan (2009) called, a 'tortuous transition'.

Structural Change in Employment

Tamil Nadu has seen a transformation in employment structure in the last 3 decades. The shift in sectoral workforce is more diversified as compared to the all-India average (Table 6). The labour force increased from 24.6 million in 1983–84 to 33.1 million in 2011–12, according to principal and subsidiary status (ps+ss) taken together, adding only 6 million (35%) in the last 3 decades, thanks to the decline of fertility rate in the state.[14] The corresponding increase in the labour force for all-India was from 309 million to 484 million (57% increase). This relatively lower expansion of labour force in the state has made the reshuffling of labour force among sectors—than supporting additional workforce—a main concern of development, notwithstanding the recent in-migration of labour from other states.

Following the labour force, total workforce increased from 23.8 million to 32.4 million between 1983–84 and 2011–12, adding 36% to the workforce. Of the 8.6 million additional workforce, 2.5 million were

[13] Lewis (1954/1958) argued that as development unfolds, due to increased capital accumulation, low-productive activity gives way to higher-productive jobs, using up the disguised and surplus labour in agriculture. However, this need not be the case always if absorption of labour displaced from agriculture takes place in low-productive or survival jobs in non-agricultural sectors.

[14] The state was known for its dramatic decline in fertility rate, and the rate being less than replacement rate and comparable to that of many developed countries.

Table 6

Size of Labour Force and Workforce by Sector (In million)

Sector	1983–84	1993–94	1999–2000	2004–05	2009–10	2011–12
Agriculture	13.9	15.1	14.6	14.9	14.2	11.4
Manufacturing	4.0	5.0	5.3	6.3	5.4	6.5
Non-manufacturing	0.8	1.3	1.7	2.2	3.4	4.5
Services	5.2	6.9	7.5	8.7	8.8	10.0
Total workforce	23.8	28.3	29.0	32.0	31.8	32.4
Total labour force	24.6	29.0	29.7	32.7	32.5	33.2
Total population	50.4	57.6	61.6	66.0	70.9	73.0
LFPR male (15–59) %	92.2	89.1	87.7	78.0	85.0	84.6
LFPR female (15–59) %	56.1	57.1	50.9	61.1	43.8	42.4
Ratio of working population (15–59) %	57.8	62.0	64.0	64.4	66.2	65.7

Source. Computed from NSS EUS unit-record data.

Note. LFPR = Labour force participation rate.

added in manufacturing and 3.7 million in construction sector, with the remaining 4.8 million in the service sector. While the agricultural sector in the state saw a withdrawal of workforce by about 2.5 million (decline of 18%), all-India saw an increase of 12% in the workforce in agriculture during the same period. While this structural change in employment among sectors is still short of proportion to changes in output between the primary, secondary, and tertiary sectors, as I noted above, the state still has seen a faster diversification of workforce in the 3 decades as compared to all-India trend. This structural shift becomes evident from the employment elasticities of output by major economic sectors: the employment elasticity of aggregate output is negligible, but some sectors have shown positive elasticity, indicating the sectoral shift of workforce.

Employment Elasticity of Output

Employment elasticity, measured as percentage change in employment to percentage change in unit of output, is highest in manufacturing sector (1.18) for 2009–12, followed by construction (0.98) and service (0.65) sectors while agriculture witnessed negative generation of employment, indicating an exodus of labour from the sector. Overall employment elasticity is 0.09, which is slightly lower than that of all-India (Table 7). As argued earlier, Tamil Nadu has been witnessing no additional increase in workforce but only sectoral reshuffling from agricultural to non-agricultural sectors.

The trend is quite similar across the subperiods since the 1990s. Such trend becomes clearer when we disaggregate the structure of workforce by sectors. In terms of distribution of workforce, the share of agriculture has come down from 58.3% of total workforce in 1983–84 to 35.2% in 2011–12. The share of manufacturing has gone up only marginally, from 16.7% in 1983–84 to 19.9% in 2011–12, despite the state's better record in having labour-intensive manufacturing in the country. The non-manufacturing (largely construction) sector has emerged as the largest absorber of additional workforce in the last 3 decades. Its share in the total workforce has gone up from 3.3% in 1983–84 to 13.9% in 2011–12. The corresponding figures for service sector are 21.7% and 31% respectively. In sum, workforces displaced from agriculture are largely absorbed in construction and service sectors.

Table 7

Employment Elasticity of Output

Sector	1999–2000	2004–05	2009–10	2011–12
	Tamil Nadu			
Agriculture	-0.47	-0.26	-0.18	-1.04
Manufacturing	0.20	1.25	-0.18	1.18
Non-manufacturing	0.45	0.75	1.59	0.98
Services	0.11	0.51	0.00	0.65
All	0.05	0.44	-0.01	0.09
	All-India			
Agriculture	0.12	1.09	-0.67	-0.53
Manufacturing	0.27	0.81	-0.17	1.35
Non-manufacturing	0.74	1.03	1.26	1.07
Services	0.35	0.55	0.20	0.55
All	0.20	0.53	0.01	0.21

Source. Computed from CSO and NSS EUS unit-record data.

If we compare with the developed states, the share of manufacturing in total employment is the highest in the country. While the service sector is 31% in Tamil Nadu, it is 25% in Gujarat, 32% in Maharashtra, and 27% for all-India; the share of agriculture in the total workforce in Tamil Nadu is one of the lowest in the country, at 35%, as against 48.9% in Gujarat, and 49% for both Maharashtra and all-India average. The state has one of the highest non-farm sector employments within rural areas. The trend only shows that the structure of the workforce is much diversified as compared to Gujarat, Maharashtra, and the all-India trend.

In terms of quantity of employment, the state has not only seen much diversification in jobs but has also been more socially inclusive in labour market participation in the last 3 decades. The quality of jobs is, however, a cause of concern. Let us now turn to the type of jobs generated.

Quality of Employment

Of the 8.5 million increase in jobs during 1983–84 to 2011–12, about 4.5 million (53%) were added in regular jobs, while 3.8 million (44%) were added in casual labour, and the remaining 0.24 million (3%) became self-employed. Of additions to the total increase in regular jobs during 1983–84 to 2011–12, 1.6 million (36%) were in manufacturing while about 2.8 million (62%) were in service sectors (Table 5 and Table 6). Of the total increase in casual jobs, 3.3 million (87%) came from construction sector while the remaining 13% were in service sectors. This shift in the structure of workforce towards wage workers is quite different from that of other states and all-India, where self-employment continues to have predominance in the total share of the workforce. If we compare with Gujarat and Maharashtra, Tamil Nadu has a distinct pattern to the type of workforce. For instance, the share of self-employed in total jobs was 42% in 2011–12 as against 55% in Gujarat and 47% in Maharashtra while the all-India average was 58%. On the other hand, the share of casual jobs was 42% in Tamil Nadu, as against 30% in Gujarat, 35% in Maharashtra, and 29% all-India average (Table 8). The share of regular jobs with a stable contract and wage structure is about 16% in Tamil Nadu, against 15% in Gujarat and 18% in Maharashtra, while the all-India average is only 13%. This trend tells us that if one does not get regular jobs in the state, they are more likely to be absorbed in casual jobs than be self-employed, compared to the other two states and on an average at the all-India level. Self-employment, however, need not be better rewarding; it can be survival driven.[15] However, this wage-led employment has serious concerns for social policy in the state; they are discussed in detail under 'State Interventions' in this paper.

Wage Structure

The state has a higher share of wages in GVA in the factory sector than most of the states in India (EPW Research Foundation, 2015). For

[15] Agarwala and Herring (2020) noted that except for a small set of profitable entrepreneurs, many self-employed workers are often 'bogus' or misclassified workers operating on contractual basis. Also, a substantial number of them survive on a small tea shop, a workshed, a fruit cart, a sewing machine in their home, or as rag pickers.

Table 8

Type of Workforce

Type	Tamil Nadu		Gujarat		Maharashtra		All-India	
	1983–84	2011–12	1983–84	2011–12	1983–84	2011–12	1983–84	2011–12
Self-employed	42.1	31.7	55.1	51.4	46.9	46.9	57.7	52.2
Regular	15.7	25.5	14.9	24.7	18.4	26.5	13.4	17.9
Casual	42.2	42.8	30.0	23.9	34.7	26.6	28.9	29.9
All	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source. Computed from NSS EUS unit-record data.

instance, the average wage share in GVA for 2008–2015 was 22% in the state, which was twice that of Gujarat (10%) and Maharashtra (12%). If we use the share of total emoluments in GVA, the state still has the highest share (32%), as against 17% in Gujarat and 22% in Maharashtra (Figure 6).[16] The wage share in GVA has been falling across the world, thanks to increase in labour productivity and capital intensity, and Tamil Nadu is no exception. Figure 7 shows the falling trend despite the state's relative high wage share.

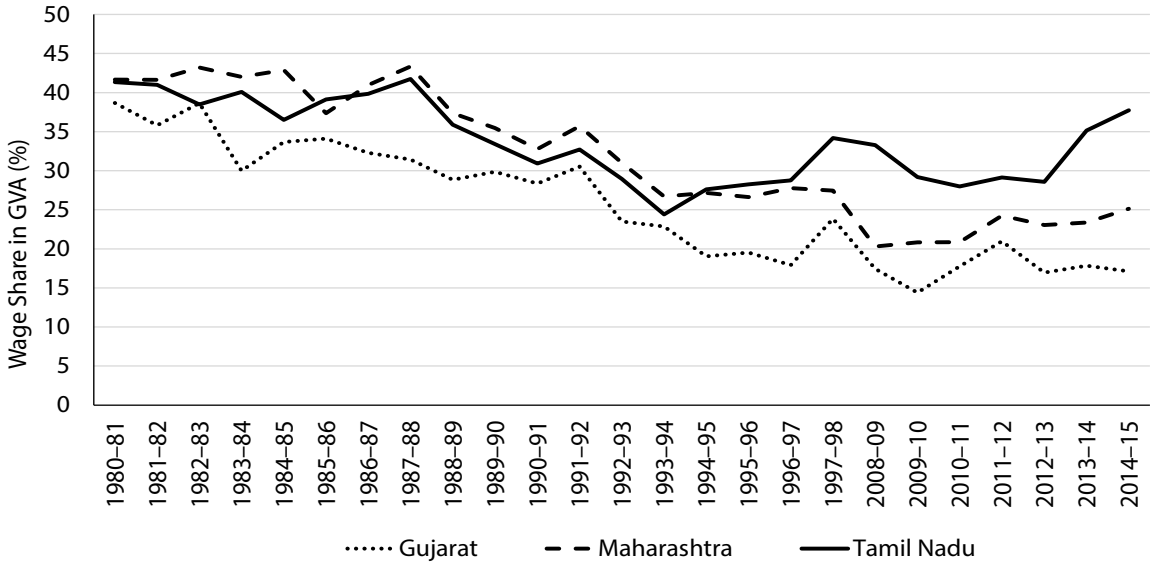
Similarly, if we look at wages of all labourers—both formal and informal—the average rural wage in the state is higher than in most states, including Maharashtra and Gujarat. The average rural wage in Tamil Nadu in 2011–12 was ₹179 as against ₹146 in Gujarat, ₹168 in Maharashtra, and ₹171 all-India average. The average urban wage in Tamil Nadu was ₹323, which was lower than in Maharashtra (₹436) but a little higher than in Gujarat (₹293). The corresponding wage rate for all-India was ₹377.

However, if we compare the combined casual wages in both rural and urban across states in India, Tamil Nadu has one of the highest (much higher than in Gujarat and Maharashtra) in the country. The average combined (rural and urban) casual wage in Tamil Nadu in 2011–12 was ₹164 as against ₹121 in Maharashtra and ₹116 in Gujarat, while the all-India average stood at ₹141 (Table 9). The relative position of Tamil Nadu with regard to wage incomes has further improved in recent times. As the recent wage data (2017) from the Labour Bureau suggests (Figure A1), the average daily wage of non-farm sector in Tamil Nadu is ₹397 (second only to Kerala), which is much higher than the national average (₹271) and other developed states, such as Gujarat (₹213) and Maharashtra (₹224). Even in the farm sector, the average wage rate in Tamil Nadu is ₹383, as against ₹186 in Gujarat and ₹206 in Maharashtra, while the all-India average is ₹264 (Figure A2).

[16] This higher share of wage in GVA has to be seen in the light of the nature of work contracts. Most of workers in factory sectors are directly employed against the prevailing trend of contractualisation in the country. The percentage of direct workers in the state is 80%, against 62% in Gujarat, 58% in Maharashtra, and the 66% all-India average.

Figure 6

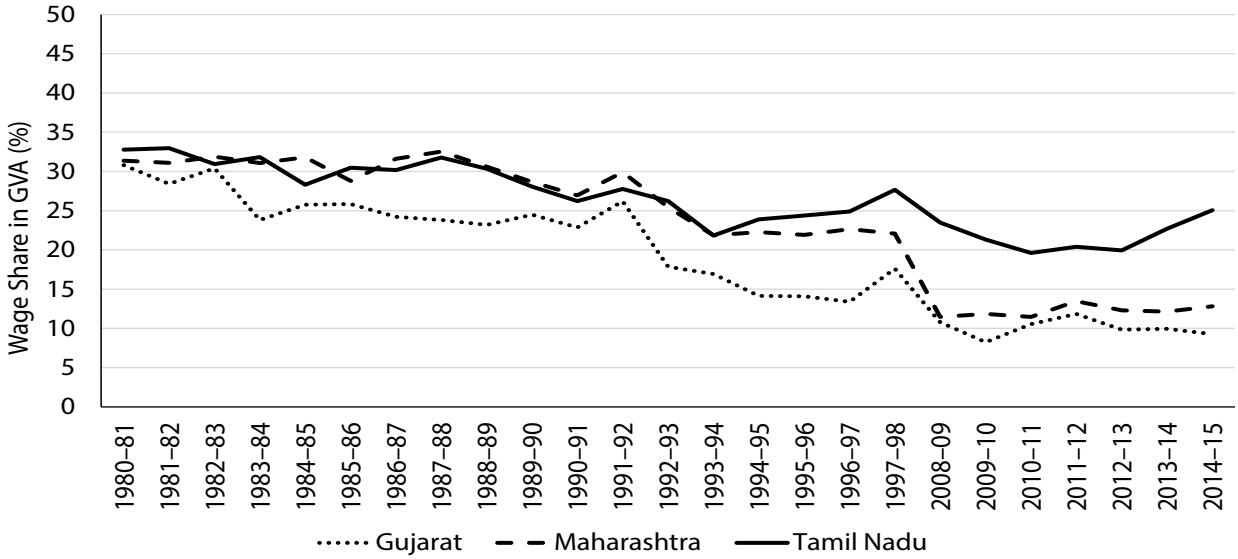
Trend in Wage Share in Gross Value Added in Factory Sector (Total Emoluments)



Source. Data from EPW Research Foundation (2015).

Figure 7

Trend in Wage Share in Gross Value Added in Factory Sector (% Wage and PF Alone)



Source. Data from EPW Research Foundation (2015).

Table 9

Trends in Wage Disparities (In %)

State	1993–94	1999–2000	2004–05	2009–10	2011–12
Rural–urban comparison					
Tamil Nadu	50.4	52.9	46.0	52.0	55.3
Gujarat	48.1	42.5	43.4	40.9	49.7
Maharashtra	30.5	35.1	34.8	27.8	38.5
All-India	41.1	41.4	41.4	39.6	45.4
Ratio of casual and regular wages					
Tamil Nadu	35.1	46.0	40.2	40.1	48.5
Gujarat	30.4	28.3	33.3	32.4	38.5
Maharashtra	21.6	25.0	22.7	19.4	26.6
All-India	29.6	30.0	30.5	30.4	36.4

Source. Computed from NSS EUS unit-record data.

Over time, Tamil Nadu has seen faster rate of growth of real wages compared to the other two states. The real wage went up by 148% (from ₹36 in 1993–94 [at 1993–94 prices] to ₹89 in 2011–12), while it increased by 72% in Gujarat and 109% in Maharashtra. We also see the wage picking up from the second half of the last decade. From 2004–05 to 2011–12, real wage rose from ₹57 to ₹89 (an increase of 57%). The corresponding increase in real wages in Gujarat and Maharashtra were by 30% and 40%, respectively. The remarkable increase in wage rates, particularly in the rural area, is attributed to the spillover effect of the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), on the one hand, and a shortage of labour partly due to higher participation in education (Mehrotra et al., 2014; Thomas, 2012). Also, the employment dynamics in the construction sector pushed the wage rate in the rural non-farm sector. It is to be noted that MGNREGA, from 2005 onwards, not only raised wages in public works but also pushed the overall reserved wage of the state, a trend quite similar to the one observed all-India (Mehrotra et al., 2014). What is, however, specific to the state is the better performance of the scheme

in the state. Tamil Nadu has performed relatively well in implementing the MGNREGA. A study by the Woodrow Wilson School (Bonner et al., 2012) at Princeton University showed that Tamil Nadu topped all states in ensuring women's participation in the programme.[17] It also did better in average person-days worked in the programme.

The spurt in rural economic dynamism and increase in wage rates have impacted rural–urban disparities as shown in the next section.

Less Wage Inequality as Compared to Other States

To measure wage inequality, we use two accounts—less rural–urban divide in wages, and lower disparities between regular and casual jobs. The ratio of rural to urban wage is not only higher as compared to other states but also improving over time. For instance, the ratio of rural to urban wage rate is 55% for Tamil Nadu as compared to 49% for Gujarat, 38% for Maharashtra, and 45% all-India average in 2011–12 (Table 10). The ratio has been improving along with the growth momentum. For instance, the ratio came down from 50% in 1993–94 to 46% in 2004–05 (i.e., declined by 4 percentage points) but went up to 55% in 2011–12 (i.e., improved by 9 percentage points). The all-India average improved from 41% to 45% (by 4 percentage points) during this period.

The most remarkable aspect is the relatively less disparity between casual and regular jobs. In 2011–12, the ratio of casual to regular wage rates was 48.5% for Tamil Nadu, as compared to 38% for Gujarat, 26.6% for Maharashtra, and 36% for all-India. The state has seen a steady improvement in the condition of casual labourers over time. If we see the trend, the ratio was 35% in 1993–94, and it increased to 48.5% in 2011–12. During 1993–94 to 2011–12, the ratio of casual wage to regular wage improved by about 13 percentage points for Tamil Nadu, as against 8 percentage points for Gujarat, 5 percentage points for Maharashtra, and 6 percentage points for all-India.

This relatively less wage disparity may be attributed to the nature of industrialisation and urbanisation in the state. As noted earlier, the state

[17] The study compared the performance of states in India in implementing the programme, by using certain basic indicators, such as number of days worked, level of wages, and women's participation. Tamil Nadu came out as a relatively better performing state.

Table 10

Trends in Nominal Wage

State	1993–94	1999–2000	2004–05	2009–10	2011–12
			Rural wages		
Tamil Nadu	22	54	65	124	179
Gujarat	26	51	63	99	146
Maharashtra	21	45	61	105	168
All-India	24	51	66	117	171
			Urban wages		
Tamil Nadu	45	102	142	239	323
Gujarat	55	119	144	241	293
Maharashtra	69	127	174	379	436
All-India	59	123	159	296	377

Source. Computed from NSS EUS unit-record data.

has better rural–urban connectivity, which made diversification options outside of agriculture possible. It also has one of the highest shares of non-farm sector employment within rural areas. Policy measures, such as MGNREGA, have also kept the reserve wage high in the state. Despite such transformations, certain structural questions remain unresolved.

State Interventions

The structural transformation described in this paper, despite exhibiting a relatively more inclusive pattern of change, has brought three sets of challenges for Tamil Nadu: agriculture has lost its ability to provide jobs as the state has the lowest dependency of labour on the sector with negative employment elasticity; despite having the highest share of manufacturing jobs (19.9%) in the country, the state is not able to fully absorb the labour released from agriculture in the formal sector as the share of casual labour is one of the highest in the country; and increased participation in higher education (the highest gross enrolment ratio in the country)

has generated aspirations, particularly among educated youth, which are not being fulfilled by both quantum and quality of employment.

The state has been trying to address the first two sets of challenges through its populist, universal, social redistribution policies.[18] It has seen a consolidation of populist, universal, social policies, like free and subsidised food programmes led by the PDS to welfare boards for unorganised labour. The approach of these policies has been twofold. First, they took the politics of distribution beyond notions of work and labour, since current economic growth did not generate sufficient decent wage-led jobs for all. Second, they strategically weakened the contradiction between labour and capital within production sites, by working as a premium or cap on the wage, through increasing the reserve price of labour. Many who work as casual labourers do not know who their employers are, as subcontractors often become the principal employer. Based on fieldwork in Tiruppur garment cluster, Vijayabaskar (2011) observed that the welfare schemes initiated by the state allowed 'capital to pursue accumulation without the burden of providing for labour' in times of economic crisis. By providing entitlements outside the workplace, the state managed to offer a degree of protection for labour.

I offer two sets of schemes to demonstrate how such welfare policies influence the growth process—directly addressing the condition of labour for establishing a series of welfare boards for unorganised labour and an indirect measure by provision of the PDS.

The state has brought in a slew of measures to improve the conditions of unorganised labour. In 1983, Tamil Nadu opened the first health centre for bidi workers in the state; in 1986, the government began to provide pension funds to bidi workers. The state enacted the Tamil Nadu Construction Workers Act in 1984 and established the Construction Workers Welfare Board in 1994.

[18] Following the global pattern, Ferguson (2015) argued that the current nature of global capitalism may not be able to absorb labour released from agriculture in developing countries. He favours a share in the collective social product for everyone in society, irrespective of their participation in production, thus taking the politics of distribution beyond labour-centric paradigms.

As the head of the Construction Workers Welfare Board observed, while it functions well because the unions are involved, 'I should say these welfare boards were to the government vision' (Agarwala, 2013, p. 100). Following the Construction Workers Welfare Board, Tamil Nadu launched 17 welfare boards for 17 categories of informal workers, another first in the country. (Table A1 lists the welfare boards for informal workers.)

The Dravida Munnetra Kazhagam (DMK) was proactive in certain labour welfare measures, often quoting a phrase of one of its founder members: 'Smile of the poor is the smile of god' (Agarwala, 2013). In May 1997, for instance, the DMK sent three officials from its ministry of labour to tour across India, to learn ways in addressing the concerns of unorganised labour. Agarwala (2013) wrote that contrary to what might be expected from scholarship on liberalisation's adverse effects on workers, Tamil Nadu's commitment to liberalisation did not undermine the livelihoods of informal workers, but actually expanded it.

If the welfare boards addressed the direct concerns of unorganised labour, the PDS improved their bargaining power and worked as a shock absorber during the crisis. As Vijayabaskar (2011) demonstrated, even workers employed in urban industrial clusters draw upon food and other items distributed through the PDS in their native villages. Similarly, Heyer (2010), in her study of Dalit households in villages near Tiruppur, pointed to the critical role played by the enhanced PDS and MGNREGA in improving their real incomes. The improved real incomes through PDS get reflected through the rate of reduction in poverty. Tamil Nadu has done much better in poverty reduction than comparable states and the all-India average in all measures and categories. A study suggested that 44% of poverty reduction in Tamil Nadu was accounted for by a well-functioning PDS (Drèze & Khera, 2013). The PDS is a significant source of income support and social protection in the state (Drèze & Khera, 2013). Since the PDS is universal in Tamil Nadu, the poor get their entitlement fairly. The PDS in Tamil Nadu has been providing 35 kg rice per month free to Antyodaya Anna Yojana card holders (against the Government of India's stipulated rate of ₹3 per kg) and 20 kg rice per month to other card holders since 2011. Earlier, the state was providing rice at ₹1 per kg (Alamu, 2011).

The poorest of the poor are targeted for the issue of Antyodaya Anna Yojana cards. The state also provides wheat, sugar, kerosene, and essential pulses at highly subsidised prices. Unlike in other states, the PDS in Tamil Nadu is operated through fair price shops run by co-operative societies (Tamil Nadu Civil Supplies Corporation, n.d.).[19] Drèze and Khera (2013) estimated that implicit subsidy through the PDS was as high as ₹113 per month per head for rural population and ₹111 for urban population in Tamil Nadu. The corresponding figures for all-India were ₹60 and ₹72, respectively. Tamil Nadu tops among the states in the estimates of implicit subsidies provided through the PDS in both rural and urban areas in India. The reliance on PDS has been critical to the mobility and livelihood strategies among long-distance and commuting workers. Given its rural–urban linkages, workers often commute to cities with ease, and rural becomes just a place habitation, delinking its dependence on livelihoods.

While these interventions sustained the growth process, structural questions such as inadequate job opportunities for educated youth and stagnancy of agriculture remain elusive.

Conclusion and Challenges Ahead

The analysis suggests that Tamil Nadu has seen rapid economic growth in the last 3 decades. The rate of growth has been slightly lower than that of Gujarat and Maharashtra but higher than that of the all-India average. Growth has been broad-based—distributed across sectors—while services and industry took the lead. But agriculture has been stagnating given its disproportionate declining share in the state income. Industrialisation is widely spread out across regions in the state. While industrial development is characterised by falling employment per unit of output over time, the state still could hold on to labour-intensive industries as compared to Gujarat and Maharashtra. It has seen a significant rise in terms of employment share in total manufacturing employment in the country. Even on its own structure of workforce,

[19] Pulses, such as toor dal, urid dal, and fortified palmolein oil, are distributed at subsidised prices.

Tamil Nadu's manufacturing share is slightly higher than that of Gujarat and Maharashtra.

Besides labour-intensive industrialisation, the state also has relatively better wage share in valued added in organised manufacturing and higher wage rates, compared to Maharashtra and Gujarat. Given the spatial spread and rural–urban linkages, industrialisation has transformed the rural economy. The rural is no longer insulated from urbanisation. Urbanisation is broad-based since small towns have independent trajectories of growth while being well-connected with larger metropolitan cities.

Despite such a significant economic transformation, the state has broadly two sets of challenges—the inadequacy of jobs to absorb the labour released from agriculture, and the casual nature of jobs and emerging joblessness for educated youth. First, a steady decline in both the share and absolute number of cultivators since the 1990s suggests a movement of the rural workforce to non-agricultural and urban spaces. The percentage of cultivators in rural Tamil Nadu came down from 29% in 1981 to just 13% in 2011, which is one of the lowest figures across states in India (Vijayabaskar, 2017). As a result, the rural is no longer synonymous with agrarian life in Tamil Nadu, with youth withdrawal from agriculture occurring at a faster pace here than in other Indian states (Jeyaranjan, 2012).

Second is the inability to absorb educated youth in the labour market. Tamil Nadu has become a supply hub for engineers in recent years. The state has 534 engineering colleges, fewer than only Maharashtra. Affirmative action policies in the state's education sector have ensured access to education across social strata. The gross enrolment ratio in higher education in Tamil Nadu is one of the highest among states and is double the all-India average. According to the final report of the All India Survey on Higher Education (2014–15), 45.2% of the state's youth in the 18–23 age cohort were engaged in some form of higher education, whereas the all-India figure was just 24.3% (Department of Higher Education, 2016). However, increased access to education may constitute a problem when, despite investing in education, one finds no returns—as, for example, in a situation where there are not enough jobs to absorb all the engineers that the state has produced. Given the

limited generation of quality jobs, mere access to higher education—without proportional diversification in the employment market—does not translate into better prospects for its beneficiaries. A recent study (Vijayabaskar et al., 2018) suggests that a large percentage of rural Tamil Nadu's youth population is unemployed and underemployed. Many of them are in the category of 'neither in jobs nor in education'. That nearly 30% of male graduates from rural areas fall under this category suggests that education does not guarantee quality employment.

While these two broad structural challenges remain intact among others, the state attempts to resolve them outside the economic domain. The state, while promoting economic growth by a range of incentives, has simultaneously deployed certain welfare schemes to address concerns of labour. However, despite investments in human capital, the persistent inability to generate decent livelihoods only shows the limits of such a growth process. Such limits can partly be attributed to constraints imposed on a subnational state in a quasi-federal country where regions do not enjoy much power to intervene in productive sectors—fiscal, external trade, and certain industrial policies.

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Appendix

Table A1

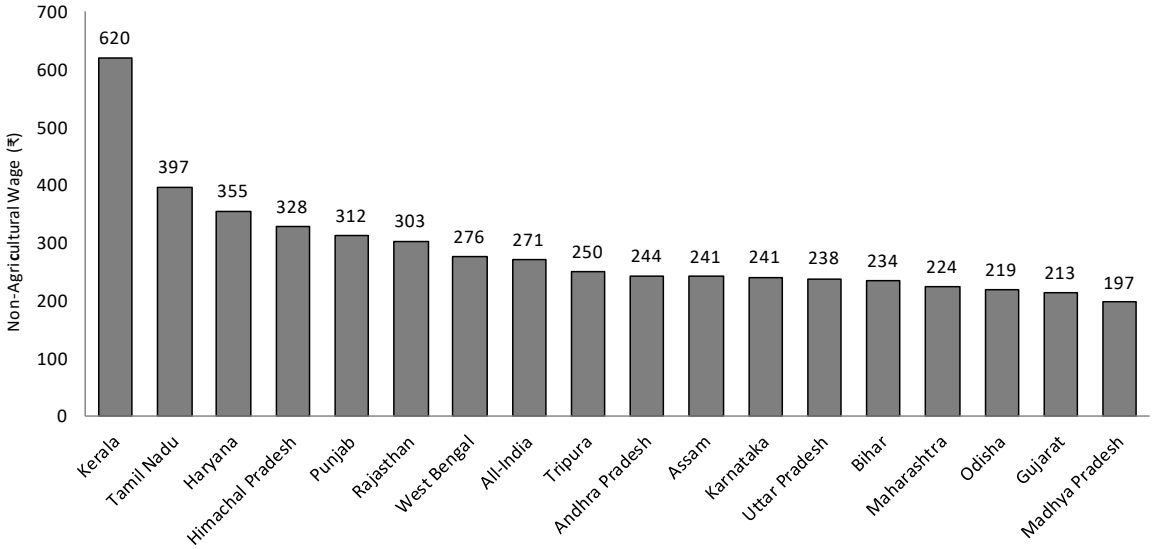
Welfare Boards in Tamil Nadu for Unorganised Workers

No.	Welfare Board	Year Founded
1	Tamil Nadu Construction Workers Welfare Board	1994
2	Tamil Nadu Manual Workers Welfare Board	1999
3	Tamil Nadu Unorganized Drivers Welfare Board	2006
4	Tamil Nadu Tailoring Workers Welfare Board	2006
5	Tamil Nadu Hair Dressers Welfare Board	2006
6	Tamil Nadu Washermen Welfare Board	2006
7	Tamil Nadu Palm Tree Workers Welfare Board	2006
8	Tamil Nadu Handicraft Workers Welfare Board	2006
9	Tamil Nadu Handloom and Handloom Silk Weaving Workers Welfare Board	2006
10	Tamil Nadu Footwear and Leather Goods Manufactory and Tannery Workers Welfare Board	2006
11	Tamil Nadu Artists Welfare Board	2006
12	Tamil Nadu Goldsmiths Welfare Board	2006
13	Tamil Nadu Pottery Workers Welfare Board	2006
14	Tamil Nadu Domestic Workers Welfare Board	2007
15	Tamil Nadu Power Loom Weaving Workers Welfare Board	2009
16	Tamil Nadu Street Vending and Shops and Establishments Workers Welfare Board	2010
17	Tamil Nadu Cooking Food Workers Welfare Board	2011

Source. Department of Labour, Government of Tamil Nadu (various reports).

Figure A1

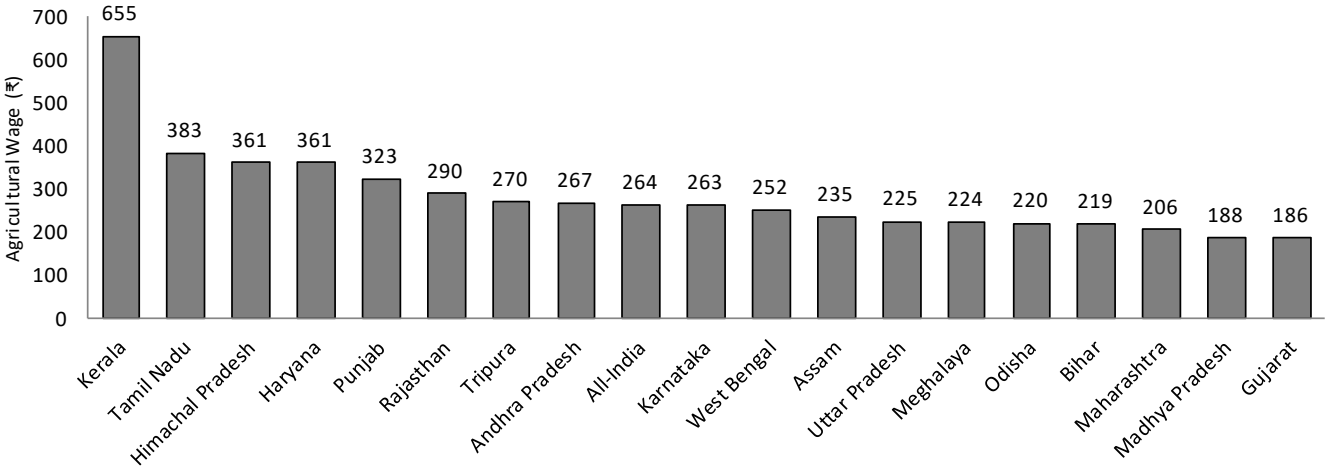
Rural Non-Farm Wage Rate



Source. Data from Labour Bureau (2017).

Figure A2

Rural Farm Wage Rate



Source. Data from Labour Bureau (2017).

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